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No. _____

In The

Supreme Court of the United States

October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

Petitioners,

vs.

TRIAD SYSTEMS CORPORATION,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the temporary, electronic copy of a computer program created in a computer's Random Access Memory during normal usage of the computer meets the standard of fixation for a "copy" under the Copyright Act (17 U.S.C. § 101).

2. Whether a licensee of a computer program who has paid for the use of that program constitutes an "owner of a copy" under 17 U.S.C. § 117, and thus may authorize third parties to use the computer program for the licensee's benefit.

3. Whether it is a fair use of a licensed computer software program under 17 U.S.C. § 107 for a third party to load the program into the licensee's computer for the purpose of helping the licensee to maintain the computer.

LIST OF PARTIES AND RULE 29.1 LIST

The parties to the proceedings below were Southeastern Express Company, George Barnes, Gerry Wambolt, Kevin Clark, and Triad Systems Corporation.

Petitioner Southeastern Express Company has no parent companies or subsidiaries to list pursuant to Rule 29.1.

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The petitioners Southeastern Express Company, George Barnes, Gerry Wambolt and Kevin Clark ("Southeastern") respectfully pray that a writ of *certiorari* issue to review the judgment and opinion of the United States Court of Appeals for the Ninth Circuit, entered in the above-entitled proceeding on August 31, 1995. A timely petition for rehearing was denied on October 12, 1995.

OPINIONS BELOW

The opinion of the Court of Appeals for the Ninth Circuit is reported at 64 F.3d 1330 and is reprinted in the appendix attached at 1. The injunction of the United States District Court for the Northern District of California is reprinted in the appendix at 23. The Court of Appeals for the Ninth Circuit's Order denying Southeastern's Petition for Rehearing with Suggestion for Rehearing *En Banc* is reprinted in the appendix at 39.

JURISDICTION

Invoking jurisdiction under 28 U.S.C. Section 1331 and 1332, respondents brought this suit for copyright infringement in the Northern District of California. On March 15, 1995, after a jury verdict was returned in respondent's favor, the district court entered a preliminary injunction in favor of Triad, *see* appendix at 23.

The Ninth Circuit granted Southeastern's request for a stay pending appeal on April 20, 1995. The court affirmed the issuance of the preliminary injunction on

August 31, 1995, and denied Southeastern's Petition for Rehearing with Suggestion for Rehearing *En Banc* on October 12, 1995, *see* appendix at 39.

The jurisdiction of this Court to review the judgment of the Ninth Circuit is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

The statutes involved are 17 U.S.C. §§ 101, 107 and 117. They are set out verbatim in the appendix at 41.

STATEMENT OF THE CASE

Triad is a computer manufacturer that sells and services computers for use in auto parts stores and outlets. Excerpts of Record ("E.R."), filed in Ninth Circuit, May 15, 1995, at 464. Triad also authors and distributes with its computers software programs essential for the use, including maintenance, of the computers. *Id.* Because the Triad computer has a unique design, only Triad-manufactured software will run on Triad's computers. *Id.* at 224-5, 236, 302, 305. Triad "operating software" (operating system and utilities programs) is necessary both to run and maintain the Triad computer. *Id.* at 293-300, 347-9, 123.4-123.6, Trial Exhibit T380A, E.R. at 459. To maintain the Triad computer, like any computer, it is necessary to load the Triad operating software that the customer has licensed into the computer's RAM.

The software at issue is the Triad operating software delivered with the computer, and necessary both to run

and maintain the computer. This "operating software" consists of the operating system and related utilities programs, which, through an interrelated set of organizational, procedural, diagnostic, restorative and other software tools, enable the computer to run various applications. An illustrative functional analogy compares the operating system to the engine of a car, diagnostic utilities to a car's oil stick and dashboard indicators, and restorative utilities to the tire jack in a car's trunk.

For approximately 15 years, Triad sold its operating software and hardware outright to customers without any restriction on use, sale or transfer. In 1986, Triad began licensing its software to owners of Triad systems. *Id.* at 465, 155, 107. Under the current licensing scheme, the Triad computer owner pays a fee for the right to have and use the software, but Triad prohibits the owner from allowing anyone other than Triad or the owner's employees from running the software programs. *Id.* at 459, 465.

Southeastern is a small, independent computer service and maintenance organization founded in 1989 by former Triad employees. *Id.* at 263. Southeastern competes with Triad for the service of Triad computers. As a small company with few resources, Southeastern does not have the technical or financial resources to develop an alternative to one or more of Triad's 174 utilities programs. *Id.* at 216, 356-58. Even if Southeastern or another company had that capability, those programs could not be run without an operating system. *See id.* at 359.1. Like most maintainers, Southeastern has no desire or ability to enter into a manufacturing business (like the creation of

operating software) in order to compete in the service business.

Triad sued Southeastern for, among other things, copyright infringement in May 1992 based on Southeastern's alleged copying, such as back-up copies, of Triad operating software licensed to Southeastern's customers. Southeastern asserted the fair use and copyright misuse defenses, among others, and counterclaimed for antitrust violations. Triad's first motion for preliminary injunction was denied. Later, after *MAI Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) was decided, Triad changed its theory of liability, and again moved for a preliminary injunction. The district judge refused to grant injunctive relief because the court found an issue of fact existed as to whether use of the operating software constituted a fair use under 17 U.S.C. § 107. *See Triad Systems Corporation v. Southeastern Express Co., et al.*, 64 F.3d 1330, 1334 (9th Cir. 1995). The district court expressed some doubt about *MAI*, although it indicated it was bound by *MAI*: "MAI has caused a lot of furor. It's a new concept. It's a far-reaching concept. And I think it will take a couple of years for the law to shake out and see where it stands and what defenses are available to it." Trial transcript at 2608.

Over Southeastern's objections, the district court bifurcated the trial, and held the trial on Triad's copyright infringement claim first. *See Triad*, 64 F.3d at 1334. The jury for phase one of the trial entered a verdict in favor of Triad. *Id.*

The district court's directed verdict in favor of Triad on the fair use defense, the district court entered an

injunction in Triad's favor on March 15, 1995. *Id.* The district court refused to stay the injunction pending the trial of phase two of the case, which precipitated the earlier-described proceedings in the Ninth Circuit.

This Court granted a stay of the injunction temporarily on October 20, 1995, and then lifted that stay on October 26, 1995. Southeastern is now seeking a writ of *certiorari*.

REASONS FOR GRANTING THE WRIT

Summary of Argument

The Ninth Circuit's opinion in *Triad Systems Corporation v. Southeastern* both depends on and extends the unprecedented decision in *MAI Systems Corporation v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994)[1], a case that has been repeatedly and harshly criticized by law review articles and legal treatises as a matter of both law and policy.[2] Under the Ninth

[1] Because the *MAI* case settled while a petition for *certiorari* was pending, this Court dismissed the petition without ruling on it.

[2] *See, e.g.*, Michael E. Johnson, *The Uncertain Future of Computer Software Users' Rights In The Aftermath of MAI Systems*, 44 Duke L.J. 327, 328 (1994) ("The MAI Systems case demonstrates how a series of legal determinations, each somewhat defensible as a mechanical application of statutory language and case law precedent, can yield a result that is plainly at odds with the policies behind the statutes it seeks to apply."); Carol G. Stovsky, *MAI Systems Corp. v. Peak Computer, Inc.: Using Copyright Law to Prohibit Unauthorized Use of Computer Software*, 56

Circuit's recent opinion, if a third party such as a maintenance company loads a computer owner's licensed software into the RAM of the computer owner's computer, this act creates a "copy" of the software that is not protected by the fair use doctrine and therefore constitutes copyright infringement. That decision is contrary to the public policies underlying the Copyright Act, which serves to secure public access to and enjoyment of creative works. It is also contrary to common sense, because the temporary electronic "copy" in RAM, which disappears when the computer is turned off, is not dissimilar to the "copy" of this document currently being made on the retina of the reader.

U.S. law has generally provided that the interests of copyright holders and the general public should be balanced. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S.

Ohio L.J. 593 (1995) ("The Ninth Circuit's ruling permits software vendors to use copyright interests in their programs to control who uses the machine and in what capacity"); Trinnie Arriola, *Software Copyright Infringement Claims After MAI Systems v. Peak*, 69 Wash. L.Rev. 405 (1994) ("The MAI Systems court reached a flawed decision lacking any cogent rationale or supporting public policy"); Katrine Levin, *MAI v. Peak: Should Loading Operating System Software Into RAM Constitute Copyright Infringement?*, 24 Golden Gate U. L. Rev. 649, 682 ("The MAI decision has resulted in incongruous consequences that have puzzled and confused both the legal community and third-party maintenance providers"); Bradley J. Nicholson, *The Ghost in the Machine: MAI Systems Corp. v. Peak Computer, Inc. and the Problem of Copying RAM*, 10:1 High Technology Law Journal 147, 169 (1995) (*MAI* inhibits dissemination of works, contrary to copyright policy, because it allows restrictions on access and use based on copyright liability.") 2 Melville B. Nimmer, *Nimmer on Copyright*, § 8.08[B] at 8-113-114 and n. 38 and 39 (1995).

151, 156 (1975) ("Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.") An important way of balancing those interests has been to distinguish between use of a copyrighted work and proliferation of that work for sale. For example, an owner of a book may read or use that book without fear of a copyright infringement lawsuit, so long as the book is not copied. As long as copies of the book are not proliferated, the copyright holder's interests are protected.[3]

The *Triad* and *MAI* opinions, which contain no explicit consideration of the policies underlying the Copyright Act, ignore the effects the decision will have on the entire community of computer owners, users and maintainers. As in *Lotus Development Corporation v. Borland International, Inc.*, 49 F.3d 807 (1st Cir.), *cert. granted*, 64 U.S.L.W. 3238 (1995), the outcome of this case has far-reaching implications for competition and the proper role of copyright. At stake are copyright issues as important as those in *Lotus*, but not covered by that case. Furthermore, *Triad* directly contradicts the teaching of this Court in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992), and is in conflict with a well-reasoned Fifth Circuit decision, *Vault Corporation v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988).

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[3] An example from this case brings home this point. Triad has a copyright over both its software and printed user manuals. Southeastern uses both on a customer's behalf. However, Triad only sued Southeastern for use of the software programs, not use of the manuals.

The effect of the Ninth Circuit's decision in *Triad* is to prevent a lawful licensee of a computer program from authorizing anyone other than the manufacturer and the licensee's own employees from using the program even though no copies of the program are proliferated. This result is not in accordance with well-established principles of copyright law, and should be reversed.

This is not a case of a defendant copying computer programs onto disks and selling them in competition with the software maker. This case concerns a company that is authorized by the licensee of the computer program to utilize that program to fix the licensee's computer, just as the licensee himself is entitled to do. In simple terms, this case reduces to whose hands are on the keyboard. The Ninth Circuit's decision that such a use constitutes a "copy" for purposes of the Copyright Act, and that such a use is not a "fair use" under the Copyright Act, is far outside the realm of well-settled copyright jurisprudence. As one law review article noted, the Ninth Circuit " . . . inappropriately restricts rights that computer users have long taken for granted and fails to consider the practical effect on the computer industry." Arriola, *supra* at 405.[4] Another law review article recognizes the distinctions between applying copyright law to

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[4] This observation demonstrates the hollowness of Triad's characterization of petitioners as "tax protesters." Triad Opposition to Southeastern's Application for Stay ("Stay Opposition"), filed October 24, 1995, at 8. Southeastern's president's statement that "I can't in my wildest dreams imagine having to pay to Triad or anybody else for going out and helping a customer fix his computer *with software that he rightfully has*" is in the mainstream of reaction to this unprecedented Ninth Circuit jurisprudence. *See* Trial transcript, Vol. 6, January 24, 1995, at 1365:22-24 (emphasis added).

print media and to software: "Copying, in this case [*MAI*], is not something distinct from access to and use of the work, it *is* access to and use of the work." Nicholson, *supra*, at 169.

The rights of computer software developers and those of computer software licensees have not yet been determined by this Court.[5] These and other issues concerning computer software are at the forefront of today's copyright jurisprudence, and should be addressed by this Court. *See Lotus v. Borland, supra.*

The law review articles discussing this issue have observed that "[a] software purchaser naturally expects to be allowed not only to run his software, but also to make backup copies and repairs, if necessary." Johnson, *supra*, at 343 (citing Final Report of National Commission on New Technological Uses of Copyrighted Works ("CONTU"), H.R. Rep No. 12207, 96th Cong., 2d Sess. pt.1. at 24); *see also* Joseph E. Hustein, Ruling Affects Rights of Support Contractors, Nat'l. L. J., June 21, 1993 at 34, 38 ("It has generally been taken for granted that the purchaser of a computer program was the owner of that copy and could make an archival backup copy and do other things owners can do, even if unauthorized or prohibited in the license agreement.")

The courts have also similarly found that a software user should have "the right to load it into a computer and to prepare archival copies of it to guard against destruction or damage by mechanical or electrical failure." *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 266 n.24 (5th Cir. 1988).

[5] Triad's suggestion that this Court's decision last term in *Campbell v. Acuff-Rose Music, Inc.*, 114 S. Ct. 1164 (1994), a fair use case about a parody of a song, settles the issue in the context of computer software is frivolous. *See* Stay Opposition at 17.

Similarly frivolous is Triad's *ad hominem* attack, which Southeastern has documented as false, in the Stay opposition at 8-9. *See* Appellant's Reply Brief in Ninth Circuit, filed June 9, 1995, at 2-5.

I. *Certiorari* should be granted to review the question of whether loading a computer software program into the computer's RAM constitutes a "copy" under the Copyright Act.

An analysis of the Ninth Circuit's decision in *Triad* also requires an analysis of *MAI Systems Corporation v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994). The *MAI* court held that loading software into a computer's random access memory ("RAM"), which occurs during the ordinary use of a computer, creates a "copy" for purposes of the Copyright Act.[6]

MAI, a computer manufacturer, sued Peak, a third-party maintenance company, for copyright infringement based on Peak's alleged use of the operating system in repairing MAI computers. The district judge entered a permanent injunction in MAI's favor, which Peak appealed to the Ninth Circuit.

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[6] Triad argued in its opposition to Southeastern's application for stay that this Court cannot address *MAI* in the context of the *Triad* opinion. Stay Opposition at 15. This position has no basis in the law. In fact, this Court regularly grants *certiorari* to review decisions grounded on circuit precedents that have been challenged by an appellant. In *Gutierrez de Martinez v. Lamagno*, 115 S. Ct. 2227, 2230 (1995), the Court reversed a summary affirmance of a district court opinion that had been based on Fourth Circuit precedent, rejecting the reasoning of the precedent case. This Court had *denied certiorari* for the Fourth Circuit precedent case only two years earlier, whereas the *MAI* petition for *certiorari* was simply dismissed upon settlement by the parties. Accordingly, *MAI* is a more likely candidate for review than was the precedent in *Gutierrez*.

The basic issue before the Ninth Circuit was whether a "copy" of the operating system was made. In considering the issue, the court looked to the statutes in the Copyright Act defining "copies." 17 U.S.C. § 101 provides that "copies" are:

> *material objects*, other than phonorecords, in which a work is *fixed* by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a device.

(emphasis added).[7] An accompanying provision explains the meaning of "fixed."

> A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated *for a period of more than transitory duration*.

17 U.S.C. § 101 (emphasis added). The court of appeals rejected Peak's argument that the loading of the operating system into the computer's RAM does not constitute a "copy" under the Copyright Act because it is not "fixed" within the meaning of the Act.

The Ninth Circuit also relied on a district court decision in determining whether a copy in RAM is sufficiently "fixed" as to constitute a "copy" for purposes of the Copyright Act. *Apple Computer, Inc. v. Formula Int'l,*

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[7] One argument the Ninth Circuit did not consider is that electronic copies in no way qualify as "material objects."

Inc., 562 F. Supp. 775 (C.D. Cal. 1983), *aff'd*, 725 F.2d 521 (9th Cir. 1984). In *Apple Computer*, the holding was that the copying of software onto a silicon chip was not an " 'essential step' in the utilization of the software because the software could be used through RAM without making a permanent copy." *MAI*, 991 F.2d at 519.

> RAM can be simply defined as a computer component in which data and computer programs can be temporarily recorded. Thus, the purchaser of [software] desiring to utilize all of the programs on the diskette could arrange to copy [the software] into RAM. *This would only be a temporary fixation. It is a property of RAM that when the computer is turned off, the copy of the program recorded in RAM is lost.*

Id. (quoting *Apple Computer*, 562 F. Supp. at 622).

The Ninth Circuit acknowledged that its decision was unprecedented and problematic: "We recognize that these authorities are somewhat troubling since they do not specify that a copy is created regardless of whether the software is loaded into the RAM, the hard disk or the read only memory ('ROM')." *Id.* Of course, the copies created when software is loaded into hard disks or ROM are permanent, unlike "copies" loaded into RAM. *See* Nicholson, *supra*, at 152.

The *MAI* decision ignored the plain language of the Copyright Act. First, under the court's own analysis, a "copy" of the operating system is not made by merely turning on the machine, thereby loading the operating system into the computer's RAM. In order to constitute a copy, something must be "fixed," which means that it must be "sufficiently permanent" for "a period of more

than transitory duration." 17 U.S.C. § 101. Because the operating system loaded into RAM is only there for a short period of time, and is automatically erased when the computer is turned off, the "copy" is not "permanent;" it is "transitory."

The very language the court of appeals quoted from the *Apple Computer* decision supports this reading of the statute. The *Apple Computer* court found that the loading of a computer program into RAM is only a "temporary fixation." Curiously, the court of appeals cites the *Apple Computer* decision in support of its decision that loading a program into RAM constitutes a "copy." Indeed, the court of appeals itself recognizes that "the software [at issue in *Apple Computer*] could be used through RAM *without making a permanent copy.*" *Id.*, at 519 (emphasis added).

The *Triad* court considered *MAI* and its effect in reaching its conclusion. Early during oral argument, one of the judges asked counsel for Southeastern: "How do you deal with *MAI*?" Transcript of Ninth Circuit hearing, July 14, 1995, at 18.[8] Counsel for Southeastern noted the many law review articles that had criticized *MAI*, and filed them, with the permission of the panel, for the panel's review. *See* Letter from Ronald S. Katz to Ninth Circuit Clerk of Court (July 14, 1995). At the end of the argument, one of the judges commented: "We're pretty well stuck with *MAI*." *Id.* at 60. Counsel for Triad also raised the issue at the hearing, stating: "I think it is a

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[8] The hearing before the Ninth Circuit was tape recorded. Southeastern had the tape transcribed.

good idea to start the analysis of this case with MAI, because that's also what MAI was about." *Id.* at 38.

The *Triad* court's written decision also reflects consideration of the *MAI* issue. The panel held that "[i]t is clear that Southeastern's activities are "copying" for purposes of the Copyright Act." *Triad*, 64 F.3d at 1335 (citing *MAI*, 991 F.2d at 519).[9]

II. This Court should grant *certiorari* to resolve a split in the circuits regarding the interpretation of 17 U.S.C. § 117.

Under the Copyright Act, the owner of a copyright in a computer program has the exclusive right to reproduce the work and distribute it to the public. 17 U.S.C. § 106. The succeeding sections of the Copyright Act (sections 107 through 118) put limitations on a copyright owner's exclusive rights. Section 117 of the Copyright Act provides:

> . . . it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an *essential step in the utilization of the computer program*, or

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[9] In its Stay Opposition at 15-16, Triad argued that the *MAI* issue was not raised below either in the briefs or during oral argument. The above analysis demonstrates that the issue was raised and decided below. Moreover, even if this Court finds that the issue was not expressly raised, if the lower court actually passes on an issue, a petition for *certiorari* may properly present the question to this Court. *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1098 n.8 (1991).

> (2) that such new copy or adaptation is for *archival purposes only* and that all archival copies are destroyed *in the event that continued possession of the computer program should cease to be rightful*. . . .

(emphasis added).

The Ninth Circuit has interpreted the phrase "owner of a copy" to mean either the copyright holder or a person who purchased a copy of the program outright. *See MAI*, 991 F.2d at 518 n.5; *Triad*, 64 F.3d at 1333. The Fifth Circuit has reached the opposite conclusion, namely, that Section 117 applies to a licensee of a copy of a computer program. *See Vault*, 847 F.2d at 257-259. Review is necessary to resolve this conflict in the circuits.

The Court in *MAI* found, without analysis, that "[s]ince MAI licensed its software, the Peak customers do not qualify as 'owners' of the software and are not eligible for protection under § 117." *MAI*, 991 F.2d at 518 n.5. The *Triad* court reached a similar result. It held that only those companies that had purchased their software outright were entitled to protection under 117. *Triad*, 64 F.3d at 1333. Those who licensed the software were not afforded that protection.[10]

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[10] Triad argued in its opposition to Southeastern's Application for Stay in this Court that Section 117 was not raised below. Stay Opposition at 16. To the contrary, Southeastern raised the issue both in its briefs and during oral argument. Southeastern argued that "there is no sound public policy reason for distinguishing between 'owners' and 'lawful possessors' of software." Appellant's brief at 21-22 n.14. Southeastern's also argued that Triad's licensing scheme was merely an attempt to avoid the rights Section 117 was intended to confer on computer

Since almost all software is technically licensed, and not sold, this reading of Section 117 essentially renders that section meaningless. Using the *MAI* court's reading, only the copyright owner can qualify as an owner of a copy. A copyright owner obviously does not need to be afforded protections to use of make back-up copies of his or her own work. Also the "owner" language in the first paragraph of Section 117 must be read in conjunction with the second part of the same section's reference to rightful possession of the computer program. 17 U.S.C. § 117(2). Moreover, the Ninth Circuit's interpretation allows the software writer the opportunity to award the protections Congress intended to software users simply by labelling the sale of software a license.

The Ninth Circuit's rigid interpretation of Section 117 conflicts with the Fifth Circuit's thoughtful interpretation. In *Vault v. Quaid*, the Fifth Circuit held "Section 117 of the Copyright Act limits a copyright owner's exclusive rights under § 106 by permitting an owner of a computer program to make certain copies of that program without obtaining permission from the program's copyright owner." *Vault*, 847 F.2d at 259. The court applied Section

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users, and that endorsing attempts to avoid the computer user's statutory rights renders Section 117 meaningless. Appellant's brief at 34-35; Appellant's reply brief at 8.

Moreover, during oral argument, counsel for Southeastern argued: "I have to admit that MAI disagrees with [Southeastern's view on § 117.] So because MAI disagrees with that, either the Court will have to deal with MAI in some way or just say MAI was incomplete because it doesn't go to the fair use issue. So I think we should win on 117 . . . ."

117 even though the software program at issue was subject to a license agreement. *Id.* at 257 n.2.

In reaching its conclusion, the Fifth Circuit examined the history of Section 117, including the report Congress commissioned by the National Commission on New Technological Uses of Copyrighted Works ("CONTU") in the late 1970s. H.R.Rep. No. 12207, 96th Cong., 2d Sess. pt.1 (July 31, 1978). The Fifth Circuit recognized that the CONTU Report "acknowledg[ed] the importance of balancing the interest of proprietors in obtaining 'reasonable protection' against the risk of 'unduly burdening users of programs and the general public. . . . ' " *Vault*, 897 F.2d at 259. The CONTU Report recommended that "[o]ne who rightfully possesses a copy of a program . . . should be provided with a legal right to copy it to that extent which will permit its use by the possessor." *Id.* at 260 (quoting CONTU Report at 31).

The CONTU Commission recommended the enactment of what is Section 117 today. The only difference between what the CONTU Report recommended and what Congress enacted is that the CONTU language contained the term "rightful possessor," while the statute Congress enacted contains the word "owner." The legislative history gives no explanation for the change, *see* Arriola, *supra*, at 412, and rightful possession remains the relevant concept in the second part of Section 117.

The Ninth Circuit's hyper-technical and rigid reading of Section 117 causes this unlikely scenario: If Section 117 does not apply to licensees of a copy of software, it will rarely apply to anyone who possesses a copy of computer software. Most computer manufacturers do not sell to

computer owners the operating software necessary to run their machines; the software is almost always licensed. *See* Arriola, *supra*, at 423 & n.137. If licensees do not qualify as "owners of a copy," they will not be afforded the protections that the CONTU Commission intended them to have, and that Congress likely intended them to have (although this is not now ascertainable). Indeed, the result contravenes precedent set by this court.[11]

The well-respected copyright law treatise *Nimmer on Copyright* also finds the Ninth Circuit's reading of Section 117 incorrect. Nimmer criticizes the Ninth Circuit for "[f]ailing to distinguish between copyright ownership and ownership of a copy of the subject work . . . ," and finds the Ninth Circuit's logic "inadequate." 2 Melville B. Nimmer, *Nimmer on Copyright*, § 8.08[B] at 8-113-14.

III. The *Triad* court's decision rejecting the fair use defense conflicts with this Court's holding in *Kodak*.

The Ninth Circuit's decision in *Triad* principally addressed the issue of fair use in the context of *MAI* copying. The court of appeals found that Triad's copyrighted software could be used to extend Triad's control over the service market. The court held that "Triad invented, developed, and marketed its software to enable

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[11] *See Straus v. Victor Talking Machine Co.*, 243 U.S. 490, 501 (1917) (invalidated licensing scheme, and held that the transaction, which purported to be a license, was in fact a sale)); *see also Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8, 25 (1918) (court found transaction involving a license to be a sale).

its customers and its own technicians to service Triad computers. Southeastern is getting a *free ride* when it uses that software to perform precisely the same service." *Id.* (emphasis added). This holding essentially forces independent companies like Southeastern to enter two markets at once: the market for service of a certain brand of computer as well as the market for software necessary to run and maintain that computer.[12]

Such a result is expressly prohibited by this Court's decision in *Kodak, supra,* which specifically held that independent service companies need not enter two markets in order to compete in one of them: "one of the evils proscribed by the antitrust laws is the creation of entry barriers to potential competitors by requiring them to enter two markets simultaneously." *Kodak,* 504 U.S. at 485. This evil is not trivial, because this Court recognized the "magnitude of the service business." *Id.* at 462 n.6.

Indeed, the Supreme Court flatly rejected Kodak's position that the independent service organizations were

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[12] In its opposition to Southeastern's application for stay, Triad took the position that its purported willingness to offer Southeastern a license solves this problem. Stay Opposition at 7-8. That position misses the point: if this is a fair use, which it clearly is, then no license is or should be necessary. This "willingness," in any event, was a ploy: no specific offer was ever made, and the topic was not even brought up until after the litigation was brought. Even if an offer had been made, it could be made uneconomic with the stroke of a pen. Southeastern steadfastly maintains that it is untenable to be licensed by a competitor bent on its destruction. Licensing of competition is hardly what made this country an economic leader.

exploiting the investment Kodak made in product development. *Id.* at 485. The Court held that "[t]his understanding of *free-riding* has no support in our caselaw." *Id.* (emphasis added) The Ninth Circuit's opinion in *Triad* makes the exact same mistake that Kodak made and that this Court rejected.

The Ninth Circuit's reasoning essentially ignores the benefits that competition in the service business provides. The court of appeals stated that "we detect no appreciable public benefit arising from Southeastern's practice to justify this continuance under the fair use doctrine." *Triad,* 64 F.3d at 1336. This is directly contrary to this Court's view in *Kodak*: "the development of the entire high-technology service industry is evidence of the efficiency of a separate market for service." *Kodak,* 504 U.S. at 462.

The *Triad* court ignored the fact that Southeastern offered owners of Triad computers a choice of whom to use for maintenance of their computers. Likewise, the court ignored the obvious result of its decision: owners of Triad computers will have no choice but to use Triad for service. Triad will have *de facto* been granted a judicial patent.

This result undermines the purpose of the Copyright Act, which is that the general public should benefit from use of copyrighted works. *See Twentieth Century,* 422 U.S. at 156. Under the Ninth Circuit's ruling, software licensees are prevented from freely using the programs which they licensed, even when that use does not result in proliferation of copies of the program.

The result of the *Triad* court's decision is that Triad would receive a windfall from customers choosing to retain independent service organizations: one license fee from the customer and one license fee from an independent service company for the same purpose – to make the computer run with programs delivered for that purpose. The computer users who utilize ISOs like Southeastern for service are thereby forced to license utilities for which they have no use. *See* Arriola, *supra* at 421.

Triad claims that sales or licenses to service companies like Southeastern are diminished by Southeastern's use, but this argument is disingenuous. First, no such company has ever licensed the software in twenty years, E.R. at 157, 211, 309-10, and Southeastern will not license the software because it is not economic. If the operating software is useful to maintenance companies like Southeastern, then Triad could have no possible justification for licensing it to the computer purchaser that uses a service company like Southeastern because in that case the customer would have no use for the operating software. What Triad is doing is obvious – forcing the customer to use Triad for maintenance. Such patent-like protection cannot and should not emanate from a copyright.

Southeastern's use of the operating software licensed by the Triad computer purchaser does not supplant any sales or licensing of that software. The customer has already licensed it so that his computer can be maintained. Southeastern is using it on behalf of the customer for the purpose of selling maintenance, not selling operating software. The use of the operating software is solely to help the computer user use his licensed software and

does not supplant sales or licenses of the operating software. Such use is analogous to an independent car mechanic using the car owner's jack to repair a flat tire.

Under *Kodak*, Southeastern should not have to create a whole new software program in order to compete with Triad in the service market. This is especially true when Southeastern is not copying Triad's software and selling it. Southeastern is merely using the software that the computer owner rightfully possesses, and for which the owner already has paid the applicable license fee, in order to keep the customer's computer running. Such maintenance is essential to the use of the computer.

The Ninth Circuit also failed to address Southeastern's argument that the nature of the work (computer software) and the character of the use (unfixed electronic "copies" in RAM that do not result in the proliferation and distribution of any additional copies) require special consideration, and in this case weigh in favor of finding fair use. Southeastern neither sells nor provides a copy of the software; Southeastern, like any other consultant, sells only its labor, experience and skill to assist in the computer owner's use of what he already possesses and has paid for, and has been invited by the copyright holder to use. The Ninth Circuit, however, ruled against fair use because the use was commercial and was not intermediate to the creation of a new copyrightable work. This elevates form over substance: the critical question is whether Southeastern usurps the market for Triad's software. In this case, involving a new kind of temporary, electronic "copying" incidental to the normal use of a work, traditional indicators of market usurpation (i.e.,

commercial, non-transformative) simply have no predictive value.

CONCLUSION

This case raises a timely and important question: whether the providers of consulting and repair services, like Southeastern, may operate their client's computers during the course of their work (thereby loading the client's software into RAM) – or whether the copyright laws allow the writers of software effectively to monopolize these services by prohibiting computer owners from authorizing others to make these temporary, electronic "copies" on their behalf. Conferring the copyright holder with such power over the copyrighted work and the associated computer hardware contravenes the purposes of the Copyright Act and, indeed, the entire federal framework for intellectual property protection.

If the Ninth Circuit's interpretation of copyright law is permitted to stand, all independent contractors who use, consult on, or fix computer will risk liability as software "thieves" simply by using software for its intended purpose on behalf of those who lawfully possess the software. Moreover, all computer owners risk copyright liability for doing no more than having someone help them use, fix, or learn about their computer.

The use of a copyrighted work in question in this case is not copyright infringement because it is temporary and does not involve proliferation. Moreover, it is the only way to gain access to the copyrighted work. If such

use is to be deemed "copying" under the copyright laws, that use must be deemed fair, or protected by Section 117. Southeastern respectfully requests that this Court grant its petition for *certiorari* in order to rule on these important questions. The high-technology sector of this country needs guidance from this honorable court now, before the Ninth Circuit's misguided jurisprudence distorts efficiencies in that sector.

Respectfully Submitted,

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Dated: November 22, 1995

TRIAD SYSTEMS CORPORATION, a California corporation, Plaintiff,

and

Jeffrey J. Lederman; Michael J. Madison, Plaintiffs-Appellants,

v.

SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba Southeastern Brokerage Company and dba Southeastern Systems, Defendants-Appellees.

TRIAD SYSTEMS CORPORATION, a California corporation, Plaintiff-Appellee,

v.

SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba Southeastern Brokerage Company and dba Southeastern Systems; Southeastern Express Systems, Inc., a Georgia corporation; George Barnes, an individual; Kevin Clar, an individual; and Gerry Wambolt, an individual, Defendants-Appellants.

Nos. 94-15818, 95-15552.

United States Court of Appeals, Ninth Circuit.

Argued and Submitted July 14, 1995.

Decided Aug. 31, 1995.

Hardware and software producer brought copyright infringement action against independent service organization (ISO) related to ISO's servicing of plaintiff's computer systems. The United States District Court for the

Northern District of California, Fern M. Smith, J., granted preliminary injunction against defendant upon finding of infringement. Defendant appealed injunction, and plaintiff's attorneys appealed imposition of Rule 11 sanctions, and appeals were consolidated. The Court of Appeals, Sneed, Circuit Judge, held that: (1) plaintiff showed likelihood of success on infringement claims; (2) finding that ISO was not likely to succeed on antitrust defense was not clearly erroneous; (3) fair use doctrine was not applicable; (4) copyright protection extended to service market; (5) copyright misuse defense did not apply; (6) injunction was not overbroad; (7) bifurcation of trial was not abuse of discretion; and (8) attorneys who did not sign declaration could not be sanctioned for its contents under Rule 11 then in effect.

Affirmed in part and reversed in part.

Mary A. Lehman, Gray Cary Ware & Freidenrich, San Diego, CA, for plaintiffs-appellants.

Daniel M. Wall, Charles S. Crompton, III, McCutchen, Doyle, Brown & Enersen, San Francisco, CA, for plaintiff-appellee.

Ronald S. Katz, Robert A. Christopher, Richard A. Jones, Coudert Brothers, San Jose, CA, for defendants-appellees, defendants-appellants.

Appeals from the United States District Court for the Northern District of California.

Before: SNEED, CANBY, and FERNANDEZ, Circuit Judges.

SNEED, Circuit Judge:

Southeastern Express Company ("Southeastern") appeals the district court's grant of a preliminary injunction in favor of Triad Systems Corporation ("Triad"). The injunction followed a finding that Southeastern was infringing on Triad's software copyrights.[1] The terms of the injunction substantially prohibit Southeastern from servicing Triad computer systems. In a consolidated appeal, two of Triad's attorneys, Jeffrey Lederman and Michael Madison ("Lederman and Madison"), appeal the imposition of Rule 11 sanctions against them for filing a misleading declaration in support of Triad's motion for injunctive relief.

For the reasons discussed below, we affirm the grant of the preliminary injunction against Southeastern and reverse the imposition of Rule 11 sanctions against Lederman and Madison.

I.

FACTS AND PROCEEDINGS BELOW

Triad manufactures computers for use by automotive parts stores and designs, sells, and licenses unique software to run its computers. The computer systems enable customers in the automotive parts industry to automate

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[1] Southeastern also attempts to raise several issues regarding Phase One of the trial in this case; however, because the trial is still underway and no final judgment has been entered, see Appellants' Excerpts of Record ("E.R.") at 134, these issues are premature and not properly before this court on appeal. *See* Fed.R.Civ.Proc. 54(b); *Williams v. St. Louis Diecasting Corp.*, 611 F.2d 1223 (8th Cir.1979).

their sales, inventory, and accounting tasks. Southeastern is what is known as an independent service organization ("ISO") that services Triad computers.[2] Southeastern and Triad thus compete for the business of servicing and maintaining Triad computers. The crux of Triad's complaint is that Southeastern has infringed on its software copyrights and continues to do so by performing maintenance on Triad computer systems for Triad's licensees.

Triad's copyrighted software includes: (1) operating system software, which is necessary to run any other program on the computer ("OS software"); (2) applications software, which performs the basic functions like accounting and invoicing for the Triad customer; and (3) utilities, diagnostic, and auxiliary software, which is used by technicians to repair Triad software and hardware ("service software"). The OS software and the service software are involved in this dispute.

Triad software customers are subject to three different contractual arrangements. From 1976 to 1985, Triad sold its software outright to customers ("Regime 1"). Because Regime 1 customers own their software, they have rights under the Copyright Act to make or authorize the making of copies in the operation of their computers.[3] As a result, such copies are noninfringing, even if they

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[2] Southeastern also deals in used Triad computers and replacement parts; however, these activities are not at issue on this appeal. The district court granted summary judgment in favor of Triad on Southeastern's claims of tying and monopolization with respect to the spare parts market. E.R. at 100-07.

[3] *See* 17 U.S.C.§ 117.

are made by Southeastern in the course of servicing Regime 1 customers' computers. Triad therefore concedes that Southeastern cannot be barred from making use of software owned by Regime 1 customers.

In 1986, however, Triad began licensing rather than selling its software ("Regime 2"). Under Regime 2 agreements, customers may not duplicate the software or allow it to be used by third parties. In 1991, Triad added a requirement that licensees selling their computer systems pay Triad a license transfer fee ("Regime 3"). Thus, Southeastern's performance of service and maintenance on the computer systems of Regime 2 and 3 customers is at issue. At stake is the business of servicing these systems.

In order to service a Triad computer, the Southeastern technician uses the OS software and the service software in the Triad customer's possession. Triad argues that Southeastern has infringed its software copyrights because copies of the software are made in the computer's random access memory (RAM) when the computer is in use.[4]

Triad filed suit against Southeastern in federal district court in April 1992. A year later, while discovery was ongoing, this Circuit decided *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir.1993), *cert. dismissed*,

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[4] Servicing of the computers can also involve other forms of copying: OS software and service software are sometimes copied onto the hard drive in the first instance, and thereafter booted up in RAM, and Southeastern technicians also make backup copies for customers by copying programs off the hard drives onto tapes. *See* E.R. at 79-81.

___ U.S. ___, 114 S.Ct. 671, 126 L.Ed.2d 640 (1994). There we held that the loading of MAI's operating system software into RAM makes a "copy" under the Copyright Act, and that therefore Peak, an ISO, had infringed MAI's copyright by operating its customers' MAI computers in order to service them.[5]

Following the MAI decision, Triad understandably moved for summary judgment on its copyright infringement claim. Southeastern moved for summary judgment on its fair use and copyright misuse defenses. Both motions were denied.[6] The district court ordered that the trial be bifurcated: Phase One would include Triad's copyright infringement claims, damages, and Southeastern's fair use defense; Phase Two would include Southeastern's copyright misuse defense and any remaining counterclaims.

Phase One proceeded before a jury on January 12, 1995. At the close of the evidence, the district court granted directed verdicts in favor of Triad on Southeastern's fair use defense to infringement of both the OS software and the service software. Then, on February 3, the jury found that Southeastern had infringed Triad's software copyrights.

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[5] Peak did not raise a fair use defense, so the issue is not discussed in the MAI opinion.

[6] Both parties also sought preliminary injunctions at that time, which were likewise denied.

On March 15, 1995, the district court granted Triad's motion for a preliminary injunction.[7] This was a long step forward for Triad. In essence, the injunction bars Southeastern from performing service or maintenance on Triad computer systems that contain licensed software.[8] Under the terms of the injunction, the onus is on Southeastern to determine whether a particular customer's software is subject to a Regime 2 or 3 license agreement. Triad, however, is obligated to provide the license agreement upon the customer's written request; if it fails to do so within ten business days, Southeastern may service the customer's computer without violating the injunction.

A panel of this court stayed the injunction pending this appeal. While Phase Two of the trial remains in progress, on June 8, 1995, the district court granted summary judgment in favor of Triad on Southeastern's copyright misuse claim. Only a few remaining claims are as yet unresolved.

Southeastern timely appeals the preliminary injunction. This court has jurisdiction pursuant to 28 U.S.C. § 1292(a)(1).

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[7] Injunctive relief is specifically authorized by the Copyright Act, 17 U.S.C. § 502.

[8] It also bars Southeastern from distributing licensed Triad software in the course of selling used Triad computer systems and from performing any hardware upgrades on Triad computer systems that contain licensed software.

II.

DISCUSSION

A. *Preliminary Injunction*

Southeastern, attacking the preliminary injunction in several ways, argues that (1) Triad cannot show the possibility of irreparable injury, (2) Triad cannot show the likelihood of success on the merits because of Southeastern's meritorious affirmative defenses, (3) the preliminary injunction is too broad and will harm Southeastern, and (4) the district court erred in bifurcating the trial.

A district court's order granting preliminary injunctive relief is subject to limited review: It will be reversed only where the district court abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact. *Miller v. California Pac. Medical Ctr.*, 19 F.3d 449, 455 (9th Cir.1994) (en banc).

To obtain a preliminary injunction in this case, Triad must show a likelihood of success on the merits of its copyright infringement action and the possibility of irreparable injury. *See Oakland Tribune, Inc. v. Chronicle Publishing Co.*, 762 F.2d 1374, 1376 (9th Cir.1985) (quoting *Apple Computer, Inc. v. Formula Int'l, Inc.*, 725 F.2d 521, 523 (9th Cir.1984)).

1. *Irreparable Injury.*

Southeastern first argues that Triad cannot show a threat of irreparable injury sufficient to merit injunctive relief. Southeastern, mindful of the economic stakes involved, argues that Triad will suffer only monetary

damages from lost revenues, which are not usually considered irreparable harm because of the availability of an adequate legal remedy. *Los Angeles Memorial Coliseum Comm'n v. National Football League*, 634 F.2d 1197, 1202 (9th Cir.1980).

In a copyright infringement action, however, the rules are somewhat different. A showing of a reasonable likelihood of success on the merits raises a *presumption* of irreparable harm. *Johnson Controls, Inc. v. Phoenix Control Sys., Inc.*, 886 F.2d 1173, 1174 (9th Cir.1989).[9] The cases to the contrary cited by Southeastern are not controlling and are distinguishable.[10] Thus, Triad need only show a

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[9] "A copyright plaintiff who makes out a prima facie case of infringement is entitled to a preliminary injunction without a detailed showing of irreparable harm." *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254 (3d Cir.1983), *cert. dismissed*, 464 U.S. 1033, 104 S.Ct. 690, 79 L.Ed.2d 158 (1984); *see also Rent-A-Center, Inc. v. Canyon Television & Appliance Rental, Inc.*, 944 F.2d 597, 603 (9th Cir.1991) (holding that intangible injuries, such as damage to advertising efforts and goodwill, can be irreparable harm for purpose of a preliminary injunction).

[10] The case most on point is *Belushi v. Woodward*, 598 F.Supp. 36 (D.D.C.1984). There, the plaintiff sought a preliminary injunction to prevent sale of a book that contained her copyrighted photograph. The court denied a preliminary injunction despite the plaintiff's likelihood of success on the merits, reasoning that the potential harm to defendants from preventing sale of the book was greater than the harm to plaintiff from allowing its sale, that the legal remedy would be adequate, and that the public interest in free expression weighed against injunctive relief. *Id.* at 37. Here, there is no compelling free speech interest; as the *Belushi* court noted, "If this were a case in which relief would enjoin the distribution of an average commercial product, [such] relief would not be so drastic." *Id.*

reasonable likelihood of success on its copyright infringement claim to support the district court's grant of the preliminary injunction. *Id.*

2. *Likelihood of Success on the Merits.*

To make its required showing of copyright infringement, Triad must prove (1) ownership of the copyrights and (2) copying of an expression protected by those copyrights. *Johnson Controls*, 886 F.2d at 1175. Triad has shown both. Its ownership of valid copyrights is apparently not in dispute; Triad has produced certificates of registration,[11] which raise a presumption of the validity of Triad's copyrights in its software. 17 U.S.C. § 410(c).

Triad, to show that Southeastern made copies of its protected works, relies on the *MAI* decision. It is clear

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Moreover, the *entire* software programs at issue are infringing, as compared to a single photograph out of an entire book, and thus the injunction here does not substantially impinge on legitimate, noninfringing activity.

Southeastern's other citations are less pertinent. *See LucasArts Entertainment Co. v. Humongous Entertainment Co.*, 815 F.Supp. 332, 334, 337 (N.D.Cal.1993) (denying a preliminary injunction because plaintiff failed to show a likelihood of success on its copyright infringement claim); *Love v. Kwitny*, 772 F.Supp. 1367, 1375 (S.D.N.Y.1991) (denying a *permanent* injunction where the infringement was minimal and the "injurious consequences to Love's copyright from continued circulation of Kwitny's book [were], if anything, 'trifling.' "), *aff'd*, 963 F.2d 1521 (2d Cir.), *cert. denied*, ___ U.S. ___, 113 S.Ct. 181, 121 L.Ed.2d 127 (1992).

[11] *See* Appellee's Supplemental Excerpts of Record ("S.R.") at 364-439.

that Southeastern's activities are "copying" for purposes of the Copyright Act. *MAI*, 991 F.2d at 519. Because Southeastern's service activities involved copying entire programs, there is no doubt that protected elements of the software were copied. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1525 (9th Cir.1992). Therefore, Triad has shown a likelihood of success as to its prima facie case.

3. *Fair Use.*[12]

Southeastern argues that, despite Triad's carrying its burden, the preliminary injunction was improper because the district court failed to consider adequately its affirmative defenses of fair use and copyright misuse.[13] Because

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[12] This issue reaches us in a rather strange posture: Before the district court issued the preliminary injunction, it substantially had decided the fair use issue in favor of Triad by granting it a directed verdict during Phase One of the trial. As a result, Southeastern faces great adverse odds in attempting to argue that Triad cannot show the likelihood of success on the merits. Nonetheless, we proceed to examine the fair use issue to show that the district court did not commit reversible error in its analysis of Southeastern's fair use defense in deciding to issue the preliminary injunction.

Southeastern also tries to argue that the district court erred in granting a directed verdict in favor of Triad on the fair use issue. However, that issue is not properly before the court at this time because the case has not yet reached a final judgment. *See* Fed.R.Civ.Proc. 54(b); *Williams*, 611 F.2d 1223.

[13] Southeastern also argues that the district court erred by failing to consider its antitrust counterclaims in its decision to issue the preliminary injunction. It appears, however, that the district court was not even obliged to consider such counter-

those defenses are clearly meritorious, Southeastern asserts, Triad cannot show that it is likely to succeed on the merits. *See Gould v. Lambert Excavating, Inc.*, 870 F.2d 1214, 1218 (7th Cir.1989).

We agree with the district court that the doctrine of fair use does not apply given the facts of this case. "The doctrine of fair use allows a holder of the privilege to use copyrighted material in a reasonable manner without the consent of the copyright owner." *Narell v. Freeman*, 872 F.2d 907, 913 (9th Cir.1989) (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 549, 105 S.Ct. 2218, 2224-25, 85 L.Ed.2d 588 (1985)); *see* 17 U.S.C. § 107.[14]

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claims once Triad showed the likelihood of success on its copyright infringement claim. *See Helene Curtis Indus. v. Church & Dwight Co.*, 560 F.2d 1325, 1335 (7th Cir.1977) (affirming grant of preliminary injunction upon plaintiff's showing of likelihood of success on trademark infringement claim and rejecting defendant's argument that its antitrust counterclaims should have precluded injunction; "antitrust violations are not a general defense to a trademark infringement claim"), *cert. denied*, 434 U.S. 1070, 98 S.Ct. 1252, 55 L.Ed.2d 772 (1978). Even assuming the district court should have considered them, however, Southeastern cannot prevail. The district court explicitly found that the antitrust counterclaims were not likely to succeed on the merits when it rejected Southeastern's motion for a preliminary injunction. *See* E.R. at 108-17. The district court's findings are neither clearly erroneous nor based on an erroneous legal standard. *Miller*, 19 F.3d at 455.

[14] The Copyright Act sets out four factors for determining whether a use is a fair use:

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;

Southeastern relies on the rationale of *Sega v. Accolade, supra,* to find that its service activities are a fair use of Triad's copyrighted software.

Sega, however, was a very different case. There, the defendant, Accolade, had made copies of Sega's video game programs in the process of reverse-engineering them solely in order to figure out the requirements for compatibility with Sega's "Genesis" game console. The functional requirements of compatibility were not protected by copyright, and there was no other method available to Accolade to discover those requirements. 977 F.2d at 1522. This court held that the copying at issue was a fair use. We determined (1) that Accolade had made the copies "for a legitimate, essentially non-exploitative purpose," that is, determining the compatibility requirements; (2) that the copying resulted in the proliferation of independent, creative expression, by making Accolade game programs compatible with the Sega Genesis system, an outcome the Copyright Act was intended to promote; and (3) that the copying neither adversely affected the market for Sega's own video games, nor pirated those games, but only used the unprotected elements needed to make its own games compatible. *Id.* at 1523.

Southeastern's activities are wholly unlike the reverse-engineering in *Sega.* Southeastern did not make a

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(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107.

minimal use of Triad's programs solely to achieve compatibility with Triad's computers for Southeastern's own creative programs. Rather, Southeastern has invented nothing of its own; its use of Triad's software is, in the district court's words, "neither creative nor transformative and does not provide the marketplace with new creative works."[15] *See id.* at 1523. Southeastern is simply commandeering its customers' software and using it for the very purpose for which, and in precisely the manner in which, it was designed to be used. As a result, the copies made by Southeastern while servicing Triad computers have undoubtedly diminished the value of Triad's copyright. *See id.* As the district court reasoned: "If ISOs like Southeastern freely used Triad's copyrighted software on a widespread basis to compete with Triad, this would likely cause a significant adverse impact on Triad's licensing and service revenues and lower returns on its copyrighted software investment."[16] To allow Southeastern to use Triad's software as it wishes would cause Triad to lose licensing revenues from the ISOs, who "have a substantial motivation to obtain access" to Triad's software.[17] *See Advanced Computer Serv., Inc. v. MAI Sys. Corp.*, 845 F.Supp. 356, 366 (E.D.Va.1994). In short, we detect no appreciable public benefit arising from Southeastern's practice to justify this continuance under the fair use doctrine. *See Sega*, 977 F.2d at 1523. We therefore agree with the district court's thoughtful analysis and its rejection of Southeastern's fair use claim.

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[15] E.R. at 466.

[16] E.R. at 468.

[17] *Id.* at 468-69.

Southeastern also contends that the district court's analysis was flawed because Triad's copyright does not extend to the service market. We disagree. Triad invented, developed, and marketed its software to enable its customers and its own technicians to service Triad computers. Southeastern is getting a free ride when it uses that software to perform precisely the same service. Triad is entitled to licensing fees from Southeastern and other ISOs that make use of Triad's software in servicing Triad computers. Furthermore, a finding of fair use is unwarranted because the other relevant factors weigh against such a finding. Not only is Southeastern's use of Triad's software entirely commercial in nature, *see Sega*, 977 F.2d at 1522, but also both the OS and the service software are protected expression, and Southeastern is copying programs in their entirety, *see id.* at 1526. *See Advanced Computer Serv.*, 845 F.Supp. at 366 n. 13.

4. *Copyright Misuse.*

Not surprisingly, we also conclude that Southeastern cannot show that it is likely to prevail on its asserted copyright misuse defense. The district court properly granted summary judgment on this claim in favor of Triad. It found that, unlike the case of *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978-79 (4th Cir.1990), Triad did not attempt to prohibit Southeastern or any other ISO from developing its own service software to compete with Triad. District Court's Order of June 8, 1995, at 7; *see also Advanced Computer*, 845 F.Supp. at 366-67. We agree.

5. *Overbreadth and Harm to Southeastern.*

Southeastern's most plausible claim, that the injunction is too broad because it effectively prevents Southeastern from engaging in legitimate service activities even for Regime 1 customers, also fails. We find that Southeastern is not prevented from performing such service; rather, the injunction properly requires Southeastern to determine which customers own their software under Regime 1, and which are mere licensees under Regimes 2 and 3. Putting this burden on Southeastern is appropriate because Southeastern is the infringer.[18]

Were Triad able to obscure or manipulate which machines fell under which types of agreement, our attitude with respect to this issue might have been different. But that is not the case. The injunction requires Triad to ascertain the status of any computer that Southeastern seeks to service, and it allows Southeastern to perform such service without violating the injunction where Triad fails to provide the requested information. We find that this arrangement is sufficient to prevent any abuse. Therefore, we hold that the district court did not abuse its discretion in issuing the injunction.

Southeastern, we suppose accurately enough, argues that the injunction will cause it to suffer extensive harm as a result. Nonetheless, the argument fails. Southeastern cannot complain of the harm that will befall it when

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[18] This arrangement is also appropriate because it appears that the majority of Triad computer owners are subject to license agreements and do not own their software outright under Regime 1.

properly forced to desist from its infringing activities. "Where the only hardship that the defendant will suffer is lost profits from an activity which has been shown likely to be infringing, such an argument in defense 'merits little equitable consideration [on an appeal from a preliminary injunction].' " *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 612 (1st Cir.1988); *accord Apple Computer*, 714 F.2d at 1255 (in motion for preliminary injunction, district court should not consider the "devastating effect" of the injunction on the infringer's business).

6. *Bifurcation.*

Finally, Southeastern contends that the district court erred in dividing the trial into two phases, one involving the copyright action and the other involving Southeastern's antitrust counterclaims. We review that decision by way of an abuse of discretion standard. *Exxon Co. v. Sofec, Inc.*, 54 F.3d 570, 575 (9th Cir.1995), *petition for cert. filed*, 64 U.S.L.W. 3070 (July 24, 1995) (No. 95-129). Southeastern claims that bifurcation prevented consideration of its copyright misuse defense and antitrust claims in conjunction with the infringement action. This was error, Southeastern argues, because its counterclaims will affect the outcome of the case. Once more, we must reject Southeastern's argument.

As Triad correctly points out, a party seeking a preliminary injunction ordinarily is granted relief *before* trial. That is its purpose. Therefore, the fact that some claims in this case have already been reached and others not is irrelevant to the issuance of a preliminary injunction.

Furthermore, Triad's copyright infringement claim and Southeastern's antitrust claims are discrete issues, involving separate, complex bodies of law. The district court justifiably did not want the jury to muddle the two. There was no abuse of discretion.

B. *Rule 11 Sanctions*

We turn now to Lederman's and Madison's appeal regarding the sanctions imposed on them under Rule 11 of the Federal Rules of Civil Procedure.

1. *Facts.*

In October 1992, Triad, in a then unsuccessful motion for a preliminary injunction against Southeastern, supported its motion with the declaration of David Mullen, Triad's field service coordinator ("the Mullen declaration"). Ten months later, Southeastern deposed Mullen and questioned him at length about his declaration. Mullen had difficulty answering questions and at times contradicted his declaration statements.

As a result, Southeastern filed a motion seeking sanctions under Rule 11 and the court's inherent powers against Triad and both its present counsel, McCutchen, Doyle, Brown & Enersen, and its former counsel, Ware & Friedenrich, which had represented Triad during the preliminary injunction motion. McCutchen, Doyle filed a motion in opposition, arguing that, under the applicable version of Rule 11, sanctions could only be imposed against the person signing the document and not against a law firm generally.

On April 7, 1994, the district court granted Southeastern's motion. Acknowledging that it could not sanction the law firm, Ware & Friedenrich, the district court instead imposed Rule 11 sanctions of $500 each against Lederman and Madison, the attorneys involved in the preparation of the Mullen declaration.

2. *Jurisdiction.*

To forestall an argument on the merits, Southeastern first contends that this court lacks jurisdiction over an appeal from the imposition of sanctions. This is incorrect. We have jurisdiction over the appeal under the collateral order doctrine. *Optyl Eyewear Fashion Int'l Corp. v. Style Cos.*, 760 F.2d 1045, 1047 n. 1 (9th Cir.1985). An order imposing Rule 11 sanctions upon counsel, a nonparty, is final and appealable by the attorney sanctioned upon imposition of the sanction. *Rachel v. Banana Republic, Inc.*, 831 F.2d 1503, 1508 n. 5 (9th Cir.1987); *Optyl Eyewear*, 760 F.2d at 1047 n. 1.

3. *Merits.*

Lederman and Madison argue that the district court erred by sanctioning them. They maintain that under the then-current version of Rule 11, only a person whose signature was on the declaration could be subject to sanctions. Southeastern, on the other hand, insists that sanctions were appropriate because Lederman and Madison were actively involved in the preparation of the misleading declaration, and because Triad's brief, which did bear their signatures, was misleading inasmuch as it

relied heavily on the Mullen declaration. We find that the order imposing sanctions on Lederman and Madison was improper and cannot stand.[19]

Until Rule 11 was amended in 1993, subsequent to the Mullen declaration, a bright-line rule applied: Only the individual attorney who actually signed the court paper could be sanctioned because of its contents. *Pavelic & LeFlore v. Marvel Entertainment Group*, 493 U.S. 120, 110 S.Ct. 456, 107 L.Ed.2d 438 (1989); *Giebelhaus v. Spindrift Yachts*, 938 F.2d 962, 965 (9th Cir.1991); *see also id.* at 966 (holding that an attorney's typewritten name on a pleading is not a signature for purposes of Rule 11 and therefore does not subject him to sanctions). As the Supreme Court has explained:

> We held in *Pavelic & LeFlore* that Rule 11 contemplates sanctions against the particular individual who signs his or her name, not against the law firm of which that individual is a member, because "the purpose of Rule 11 as a whole is to bring home to the *individual signer* his personal, nondelegable responsibility . . . to validate the truth and legal reasonableness of the papers filed."

Business Guides, Inc. v. Chromatic Communications Enters., Inc., 498 U.S. 533, 546-47, 111 S.Ct. 922, 930-31, 112 L.Ed.2d 1140 (1991) (quoting *Pavelic & LeFlore*, 493 U.S. at

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[19] Though this court reviews orders imposing Rule 11 sanctions for an abuse of discretion, "[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law. . . . " *Giebelhaus*, 938 F.2d at 964 (quoting *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405, 110 S.Ct. 2447, 2461, 110 L.Ed.2d 359 (1990)).

126, 110 S.Ct. at 459-60) (emphasis added);[20] *see also* Fed.R.Civ.P. 11 ("Every pleading, written motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record *in the attorney's individual name.* . . . ") (emphasis added) (prior to 1993 amendment).

Inasmuch as Lederman and Madison did not sign the Mullen declaration, they cannot be sanctioned based on its misleading nature.[21] Southeastern nonetheless urges us to uphold the sanctions order because Triad's brief, which Madison apparently did sign, must also have been

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[20] The Court extended this reasoning in *Business Guides* to apply the certification requirement of Rule 11 to represented parties who sign court papers, even where they are not required to do so. 498 U.S. at 543, 546-47, 111 S.Ct. at 930-31.

[21] *Giebelhaus*, 938 F.2d at 965; *see also Pony Express Courier Corp. of Am. v. Pony Express Delivery Serv.*, 872 F.2d 317, 319 (9th Cir.1989) (holding that co-counsel who did not sign the answer could not be held liable under Rule 11 for its contents). Southeastern's argument that Lederman and Madison were involved in the preparation of the declaration is to no avail. Southeastern relies heavily on a district court case, *Mercury Serv., Inc. v. Allied Bank of Texas*, 117 F.R.D. 147 (C.D.Cal.1987), *aff'd*, 907 F.2d 154 (9th Cir.1990). There, the court imposed sanctions under Rule 11 and its inherent powers against both the bank and its counsel for filing the declaration of one of the bank's vice-presidents, which was later revealed not to be based on personal knowledge. To the extent that the court's holding rests on its power under Rule 11 (which is not clear from the text of the decision), however, the case is no longer good law in light of the Supreme Court's decisions in *Pavelic & LeFlore and Business Guides*. *See Giebelhaus*, 938 F.2d at 965 ("Absent a signature, [the attorney's] relationship to the litigation is irrelevant under the express terms of Rule 11.") (citing *Pavelic & LeFlore*).

misleading because it relied heavily on the Mullen declaration. We need not consider whether the district court *could* have chosen to sanction Lederman and Madison on this basis, because it did not. The district court's order is based exclusively on the misleading nature of the Mullen declaration.[22] No factual findings were made regarding Triad's brief or any other paper filed in this action. Furthermore, the district court clearly stated that it was sanctioning Lederman and Madison under Rule 11 and not under the court's inherent powers. As a result, there is no available alternative basis for upholding the sanctions. We must set aside the sanctions imposed on Lederman and Madison.

AFFIRMED AS TO THE PRELIMINARY INJUNCTION; REVERSED AS TO THE IMPOSITION OF SANCTIONS.

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[22] *See* E.R. at 150-200.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TRIAD SYSTEMS CORPORATION, a Delaware corporation, Plaintiff, v. SOUTHEASTERN EXPRESS CO., et al., Defendants. AND RELATED COUNTERCLAIMS.	No. C 92-1539 FMS ORDER OF PRELIMINARY INJUNCTION (Filed Mar. 15, 1995)

The motion of plaintiff and counter-defendant Triad Systems Corporation ("Triad) for an injunction came on for hearing on February 22, 1995, at 9:00 a.m. All parties appeared through their respective counsel of record.

The Court has considered the Jury Verdict dated February 3, 1995, which found that Southeastern infringed Triad's software copyrights, as well as the record at trial, and the pleadings and arguments of counsel. The Court finds, for purposes of this preliminary injunction, that Triad has shown a threat of irreparable harm from Southeastern's business practices. Specifically, the court finds that:

1. Southeastern has long-term service contracts with Regime 2 and 3 Triad customers. Those contracts give Southeastern an incentive to use Triad's utility software programs.

2. Southeastern has indicated since the Jury Verdict was entered that it intends to continue servicing its customers' computers.

3. There is no legitimate reason to stay this injunction pursuant to Fed. R. Civ. P. 62(a) or otherwise. The harm that the stay might cause Triad outweighs any harm that denying it might cause Southeastern, particularly because the injunction will only require Southeastern to refrain from committing further acts of infringement.

Based on the foregoing, IT IS ORDERED THAT:

1. As used in this Preliminary Injunction, the following terms shall have the meaning indicated:

(a) "Applicable Purchase or License Agreement(s)" shall mean each agreement between Triad and a customer pursuant to which the customer obtained any software that is installed on or normally used with the customer's Triad computer system. In the event that a Triad customer sells its computer system, the Applicable Purchase or License Agreements shall mean: (i) each agreement between Triad and the initial purchaser of the computer system from Triad pursuant to which that customer obtained any software that is installed on or normally used with the Triad computer system, and (ii) each agreement between Triad and any subsequent owner of the computer system pursuant to which the subsequent owner obtained any software that is installed on or normally used with the Triad computer system.

(b) "License Agreement" shall mean a Triad "System Purchase, Support, and License Agreement"; a

Triad "System Purchase, Service, License and Subscription Agreement"; a Triad "Master Customer Agreement"; or any other form of agreement between Triad and a customer that explicitly licenses software to the customer.

(c) "Licensed Software" shall mean:

(i) All software described in a License Agreement and provided by Triad to a customer pursuant to such agreement.

(ii) All software provided by Triad to a customer together with a computer system acquired under a License Agreement.

(iii) All enhancements (e.g., newer releases of software, patches and similar enhancements) to Licensed Software provided by Triad to a customer pursuant to a support agreement (but not enhancements to Regime 1 software to which the customer is entitled under another agreement).[1]

(d) "Triad Operating System and Utility Programs" shall mean:

(i) The operating system software;

(ii) The following software utilities: modes AEN, AFK, AFS, AID, ARE, ATR, B2P, BDA, BIN, BRP, BYS, C22, C23, C24, CAD, CBD, CBF, CBP, CCF, CCN, CDL, CDR, CDT, CED, CFD, CLL, CLT, CMD, CMS, COI, CPC, CPD, CPN, CPS, CRT, CSB, CSD, CSI, CVT, D/H,

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[1] Nothing in the definition of "Licensed Software" should be construed to eliminate the possibility that a customer will have some software that is purchased software and other software that is Licensed Software.

DAR, DCT, DDR, DMH, DMM, DMO, DNM, DOI, DRL, DRS, DSA, DSF, DSH, DST, DTD, DWN, DZL, ECN, EDO, ERT, ESN, ESY, ETP, ETR, FAT, FIB, FID, FLR, FLZ, FMT, FMT.LOG, FRQ, FSO, FSS, FST, GPL, ICA, IDT, IDV, IFM, IHE, IML, INC, INI, INM, INP, INS, ISA, ISC, JAM, LAL, LIR, LOG, LPN, LTP, M2S, MAP, MBN, MCI, MCJ, MDS, MDU, MFD, MJS, MPF, MPI, MTS, O/H, PDS, PEL, PFA, PLA, PLF, PNE, POP, PRE, PRL, PRT, PRX, PSA, PRL, PTX, PXS, R23, RAP, RDA, RDM, RDS, RDU, REC, RFS, RPV, RRI, RSS, RST, RTD, RTN, S2M, SCP, SDT, SEC, SELPRT, SFS, SOS, SQS, SS1, SSC, SSV, SZB, SZS, TAI, TCN, TPL, TRM, TSD, TSN, UPN, USI, USO, WCC, WDE, YYY, and, ZZZ; any formatting utility; any disk zoning utility; any set system parameters utility; and, any initialize system configuration utility; and

(iii) The software that creates each of the following utility reports: customer "A" record address report, part number address report, VAT transaction address report, check record address reports, payables address report, chart of accounts record address report, GL transaction by transaction address report, GL transaction by account address report, SKU address report, bar code address report, insufficient funds address report, backorder address report, cord analysis address report, Goodyear information address report, invoice address reports, special inventory transmission, mailing list customer address report, manufacturing test report, patch customer report, P.O. "a" record address report, P.O. address report, rebate record address report, sales analysis address report, telepricing address report, vendor

address report, A/R transaction address report by transaction, A/R transaction address report by customer, and, customer address report.

2. Defendants Southeastern Express Systems, George Barnes, Gerry Wambolt, Kevin Clark, the officers, agents, servants, employees of each of them, and all those acting in active concert or participation with any of them who receive actual notice of this order by personal service or otherwise (collectively, "Southeastern") are hereby ordered, pending the final outcome of this litigation:

(a) Subject to paragraph 3 below, not to copy any Triad Operating System and Utility Programs without first having determined, from a review of the Applicable Purchase or License Agreement(s) (which Triad shall provide within ten business days upon written request by the customer) that the Triad Operating System and Utility Programs they intend to copy are not Licensed Software. If Triad fails to provide the Applicable Purchase or License Agreements within ten business days of the customer's written request, no violation of this injunction will occur by any use or copying of the customer's software pending Triad's provision of the applicable agreements.

(b) Not to employ Triad's REST software program or any other telecommunication capability to copy any Triad Operating System and Utility Programs installed on a customer's Triad computer system without first having determined, from a review of the Applicable Purchase or License Agreement(s) (which Triad shall provide within ten business days upon written request by

the customer) that the Triad Operating System and Utility Programs they intend to copy are not Licensed Software. If Triad fails to provide the Applicable Purchase or License Agreements within ten business days of the customer's written request, no violation of this injunction will occur by any use or copying of the customer's software pending Triad's provision of the applicable agreements. Nothing in this paragraph shall be construed as prohibiting Southeastern from using its own copy of REST, subject to the limitations of this paragraph.

(c) Not to distribute any Triad software, including but not limited to, in the course of selling, brokering, or otherwise transferring possession of Triad computers, without first either (1) having determined, from a review of the Applicable Purchase or License Agreement(s) (which Triad shall provide within fifteen business days upon written request by (a) the current owner or licensee; or (b) the person or entity to which the software will be distributed, clearly identifying the current owner or licensee) that the Triad Operating System and Utility Programs they intend to distribute are not Licensed Software; or (2) receiving from the person or entity to whom the software will be distributed written verification that the person or entity has obtained a License Agreement encompassing all the Licensed Software that will be distributed to it. If Triad fails to provide the Applicable Purchase or License Agreements within fifteen business days of the written request, no violation of this injunction will occur by any distribution of that software.

(d) Not to perform any port expansion upgrade (also referred to as an I/O or hardware upgrade) without first either (1) having determined, from a review of the

Applicable Purchase or License Agreement(s) (which Triad shall provide within fifteen business days upon written request by the customer) that the software installed on the computer or normally used with it is not Licensed Software; or (2) receiving from the person or entity to whom the software will be distributed written verification that the person or entity has obtained a License Agreement for all the Licensed Software that permits use of all the Licensed Software on a computer having the I/O capacity that will be present on the computer at the time the port expansion upgrade is completed. If Triad fails to provide the Applicable Purchase or License Agreements within fifteen business days of the customer's written request, no violation of this injunction will occur by any port expansion upgrade.

(e) Not to offer to perform, and not to represent that it will perform, any service on a Triad computer if providing the offered service would violate any provision of this preliminary injunction.

(f) To obtain, to maintain in a safe place, and to provide in response to any order to show cause from this Court a copy of each of the Purchase or License Agreement(s) or, in the event neither the customer nor Triad produces the relevant Purchase or License Agreement(s), other records reviewed to determine that software is not Licensed Software.

3. Nothing in this Preliminary Injunction shall preclude the act of switching on power to or otherwise turning on a Triad computer provided that no other act is taken contrary to the terms of the Preliminary Injunction

to cause any Licensed Software to be copied. Also, nothing in this Preliminary Injunction shall preclude Southeastern from consulting or assisting a customer in the use or service of the customer's computer so long as Southeastern does not itself make copies of Licensed Software as prohibited by this injunction.

4. In order to allow Southeastern to seek an emergency stay from the United States Court of Appeals for the Ninth Circuit, this preliminary injunction is stayed until the earlier of:

(a) twenty-one days following the date of its entry;

(b) entry of an order from the United States Court of Appeals for the Ninth Circuit denying a stay.

5. This preliminary injunction shall not become effective until Triad has furnished, in accordance with Local Rule 290, a bond or other security in the amount of $250,000 for the payment of such costs and damages as may be incurred or suffered by Southeastern if it is found to have been wrongfully enjoined.

6. Any disputes which arise under this preliminary injunction shall be referred to Magistrate Judge Phyllis J. Hamilton for resolution. The prevailing party shall be entitled to attorney's fees and costs, unless otherwise ordered by Magistrate Judge Hamilton.

SO ORDERED.

DATED: March 14, 1995

/s/ Fern M. Smith
Fern M. Smith
United State District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TRIAD SYSTEMS CORPORATION, Plaintiff (s), vs. SOUTHEASTERN EXPRESS CO., Defendant (s).	No. C 92-1539-FMS FINDINGS OF FACT REGARDING FAIR USE (Filed Mar. 15, 1995)

The Phase One jury trial in this matter was heard from January 17 through February 2, 1995.

On January 25, 1995, after consideration of evidence presented and Southeastern's offer of proof, the Court found Southeastern had failed to raise a genuine issue of disputed material fact as to the fair use defense to Triad's distribution claim. Accordingly, the Court held as a matter of law that Southeastern's distribution of Triad's licensed software was not a fair use under the Copyright Act. Trial Transcript ("Tr.") at 1511-1524.

On January 31, 1995, Triad moved for a directed verdict on all its copyright infringement claims and the remaining fair use issues. Southeastern moved for a directed verdict on Triad's contributory infringement claim. Tr. at 2360, 2402, 2406. The Court denied both parties' motions on the infringement issues and granted Triad's motion for a directed verdict on the remaining fair use issues. Tr. at 2584, 2613-16.

On February 3, 1995, by unanimous verdict, the jury found that Southeastern infringed Triad's copyrights in its software by servicing Triad computers, by distributing Triad licensed software when brokering used Triad computers, and by performing port expansion upgrades to existing Triad computers. Verdict Form (February 3, 1995) at 2-3.

In further explanation of its earlier fair use rulings, the Court makes the following findings of fact:[1]

1. Triad manufactures and distributes computer systems and software used with its computer systems for the automotive parts industry. The computer systems and software involved in this case are known as the "Series 12 family" computers and software.

2. Triad owns undisputed copyrights in the Series 12 software, including the operating system and utilities software.

3. Prior to 1986, Triad sold its software for its computers under purchase agreements, known as Regime 1 agreements. Customers that bought Triad software under Regime 1 agreements own the particular copies of software acquired in this way. Regime 1 customers have the right to authorize others, including Southeastern, to use or copy the software in the course of providing maintenance service. Triad's copyright infringement claims do not involve Southeastern's use, copying or distribution of

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[1] Except as otherwise noted, the Court further finds that the fact was not genuinely disputed by evidence presented by Southeastern or by evidence proffered by Southeastern in its offer of proof.

software owned by customers or software that Southeastern acquired from someone who previously owned it.

4. In late 1985, Triad began licensing its software to customers under license agreements, known as Regime 2 and 3 agreements. Under these agreements, Triad owns its software and the customer acquires a restricted right to use the software. The license allows only the Triad customer itself or its direct employees to use or distribute the software described in the license. The license prohibits the customer from allowing others, including Southeastern, to use it.

5. Southeastern is an independent service organization ("ISO") that provides computer maintenance service to owners of Series 12 Triad computer systems. Southeastern also buys and sells used Triad computers and sells hardware upgrades to existing computer systems. *Id.*

A. The Purpose and Character Of The Use

6. Southeastern is a for-profit entity that services Triad computers and buys and sells used Triad computers for commercial gain. Southeastern's use and distribution of Triad's software is entirely commercial in nature.

7. Southeastern's use and distribution of Triad's licensed software is neither creative nor transformative and does not provide the marketplace with new creative works.

8. As part of its regular business practice, Southeastern often uses and copies Triad's licensed software for precisely the purpose for which it was created – to service Triad computer systems. When Southeastern

copies Triad's licensed software to service a Triad computer, there is a high probability that the copy made by Southeastern diminishes the value of the copyright to Triad. Likewise, when Southeastern distributes Triad's licensed software, there is a high probability that Southeastern's distribution reduces potential revenues Triad would have made and earned by way of a license fee.

B. The Nature Of The Copyrighted work

9. Software may contain creative expression eventhough there exists hardware constraints that programmers must work within. The evidence at trial established that Triad's software contains significant creative expression.

10. The evidence at trial also established that Triad invested significant amounts of time and creative effort in developing and updating its software. This creative component is evident on the software programs used most during the course of servicing Triad computers: LIR, used to find "illegal records"; REST, Triad's telecommunications program; the Series 12 operating system; and the repartition utility.

The Court concludes that Triad's software, while it has utilitarian elements, is predominantly creative in nature.

C. The Amount And Substantiality Of The Portion Used In Relation To The Copyrighted Work As A Whole

11. When Southeastern uses Triad's licensed software programs to service Triad computers and copies programs from disk to RAM, Southeastern copies the entire program into RAM. When Southeastern distributes Triad's software, it distributes entire programs.

12. Regardless of the quantity copied, Southeastern's use of Triad licensed software involves the heart of the Triad software programs because Southeastern uses and copies the programs that are of the most use in its service business to perform the tasks its customers need most.

13. Southeastern does not limit its use of Triad's software to just turning on the Triad computer such that the operating system is copied into RAM. Southeastern's use goes beyond that and includes copying whatever Triad software Southeastern deems necessary to service its customers, Triad systems.

D. The Effect Of The Use Upon The Potential Market For Or Value Of The Copyrighted Work

14. Triad's licensing of its operating system and utilities software provides both a current and potential revenue stream for Triad that enables it to recover its investment in software development. Triad's selling of maintenance service for the Triad computer that uses Triad's leased software is another potential revenue

stream that allows Triad to recover its software development investment and encourages future development.

15. If ISOs like Southeastern freely used Triad's copyrighted software on a widespread basis to compete with Triad, this would likely cause a significant adverse impact on Triad's licensing and service revenues and lower returns on its copyrighted software investment.

16. In addition, Triad has provided evidence that Series 12 independent service providers might pay a fee in the range of $70 per customer per month to use the service and operating system software. This fee approximates the charge Triad now makes to its service customers for the development and maintenance of this software.

17. Moreover, witnesses for both parties testified that use of Triad's service software is essential for an independent service provider like Southeastern to remain in the business of providing service contracts on Triad systems, specifically central processing units. Thus, ISOs would have a substantial motivation to obtain access to this software. Accordingly, Southeastern's use, copying and distribution of Triad's licensed software (without paying for it) deprives Triad of licensing revenues from its copyright.

18. Triad's motivation to continue to develop and maintain service software would be impacted if its competitors could avoid the expense of developing this software, but could nevertheless use and copy it to provide. service in competition with Triad. Triad has produced evidence that the widespread use and copying of its software by ISOs would diminish Triad's incentive to

invest money in the development of new copyrightable software products.

E. Other Factors

19. Southeastern's use and copying of Triad's licensed software does not promote the basic purpose of the Copyright Act. The only conceivable public benefit is to lower maintenance service prices for a small segment of the automotive aftermarket industry and provide Southeastern with a profit at the same time.

Based on the entire record in this case, the Court is unwilling to make any finding as to Southeastern good faith, or lack thereof.

SO ORDERED.

DATED: March 14, 1995

/s/ Fern M. Smith
FERN M. SMITH
United States
District Judge

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

TRIAD SYSTEMS CORPORATION, a California corporation, Plaintiff-Appellee, v. SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba SOUTHEASTERN BROKERAGE COMPANY and dba SOUTHEASTERN SYSTEMS; SOUTHEASTERN EXPRESS SYSTEMS, INC., a Georgia corporation; GEORGE BARNES, an individual; KEVIN CLAR, an individual; and GERRY WAMBOLT, an individual, Defendants-Appellants.	No. 95-15552 DC No. CV-92-01539-FMS ORDER (Filed Oct. 12, 1995)

Before: SNEED, CANBY, and FERNANDEZ, Circuit Judges.

The panel has voted to deny appellants' petition for rehearing and to reject the suggestion for rehearing en banc.

The full court has been advised of the suggestion for en banc rehearing, and no active judge has requested a

vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing is denied, and the suggestion for rehearing en banc is rejected.

The stay of the injunction pending appeal to this court, granted by this court on April 20, 1995, is hereby lifted.

§ 101. Definitions

Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following:

An "anonymous work" is a work on the copies or phonorecords of which no natural person is identified as author.

An "architectural work" is the design of a building as embodied in any tangible medium of expression, including a building, architectural plans, or drawings. The work includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features.

"Audiovisual works" are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied.

The "Berne Convention" is the Convention for the Protection of Literary and Artistic Works, signed at Berne, Switzerland, on September 9, 1886, and all acts, protocols, and revisions thereto.

A work is a "Berne Convention work" if –

(1) in the case of an unpublished work, one or more of the authors is a national of a nation adhering to the Berne Convention, or in the case of a published work, one or more of the authors is a national of a nation adhering to the

Berne Convention on the date of first publication;

(2) the work was first published in a nation adhering to the Berne Convention, or was simultaneously first published in a nation adhering to the Berne Convention and in a foreign nation that does not adhere to the Berne Convention;

(3) in the case of an audiovisual work –

(A) if one or more of the authors is a legal entity, that author has its headquarters in a nation adhering to the Berne Convention; or

(B) if one or more of the authors is an individual, that author is domiciled, or has his or her habitual residence in, a nation adhering to the Berne Convention;

(4) in the case of a pictorial, graphic, or sculptural work that is incorporated in a building or other structure, the building or structure is located in a nation adhering to the Berne Convention; or

(5) in the case of an architectural work embodied in a building, such building is erected in a country adhering to the Berne Convention.

For purposes of paragraph (1), an author who is domiciled in or has his or her habitual residence in, a nation adhering to the Berne Convention is considered to be a national of that nation. For purposes of paragraph (2), a work is considered to have been simultaneously published in two or more nations if its dates of publication are within 30 days of one another.

The "best edition" of a work is the edition, published in the United States at any time before the date of deposit, that the Library of Congress determines to be most suitable for its purposes.

A person's "children" are that person's immediate offspring, whether legitimate or not, and any children legally adopted by that person.

A "collective work" is a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.

A "compilation" is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term "compilation" includes collective works.

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

"Copyright owner", with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right.

The "country of origin" of a Berne Convention work, for purposes of section 411, is the United States if –

(1) in the case of a published work, the work is first published –

(A) in the United States;

(B) simultaneously in the United States and another nation or nations adhering to the Berne Convention, whose law grants a term of copyright protection that is the same as or longer than the term provided in the United States;

(C) simultaneously in the United States and a foreign nation that does not adhere to the Berne Convention; or

(D) in a foreign nation that does not adhere to the Berne Convention, and all of the authors of the work are nationals, domiciliaries, or habitual residents of, or in the case of an audiovisual work legal entities with headquarters in, the United States;

(2) in the case of an unpublished work, all the authors of the work are nationals, domiciliaries, or habitual residents of the United States, or, in the case of an unpublished audiovisual work, all the authors are legal entities with headquarters in the United States; or

(3) in the case of a pictorial, graphic, or sculptural work incorporated in a building or structure, the building or structure is located in the United States.

For the purposes of section 411, the "country of origin" of any other Berne Convention work is not the United States.

A work is "created" when it is fixed in a copy or phonorecord for the first time; where a

work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

A "device", "machine", or "process" is one now known or later developed.

To "display" a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially.

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission.

The terms "including" and "such as" are illustrative and not limitative.

A "joint work" is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.

"Literary works" are works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied.

"Motion pictures" are audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any.

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any derive or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

"Phonorecords" are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "phonorecords" includes the material object in which the sounds are first fixed.

"Pictorial, graphic, and sculptural works" include two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans. Such works shall include works of artistic craftsmanship insofar as their form but not their mechanical or utilitarian aspects are concerned; the design of a useful article, as defined in this section, shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.

A "pseudonymous work" is a work on the copies or phonorecords of which the author is identified under a fictitious name.

"Publication" is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display, constitutes publication, A public performance or display of a work does not of itself constitute publication.

To perform or display a work "publicly" means –

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

"Registration", for purposes of sections 205(c)(2), 405, 406, 410(d), 411, 412, and 506(e), means a registration of a claim in the original or the renewed and extended term of copyright.

"Sound recordings" are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.

"State" includes the District of Columbia and the Commonwealth of Puerto Rico, and any territories to which this title is made applicable by an Act of Congress.

A "transfer of copyright onwership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

A "transmission program" is a body of material that, as an aggregate, has been produced for the sole purpose of transmission to the public in sequence and as a unit.

To "transmit" a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.

The "United States", when used in a geographical sense, comprises the several States, the District of Columbia and the Commonwealth of Puerto Rico, and the organized territories under the jurisdiction of the United States Government.

A "useful article" is an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. An article that is normally a part of a useful article is considered a "useful article".

The author's "widow" or "widower" is the author's surviving spouse under the law of the author's domicile at the time of his or her death, whether or not the spouse has later remarried.

A "work of visual art" is –

(1) a painting, drawing, print, or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author, or

(2) a still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author.

A work of visual art does not include –

(A)(i) any poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audio-visual work, book, magazine, newspaper, periodical, data base, electronic information service, electronic publication, or similar publication;

(ii) any merchandising item or advertising, promotional, descriptive, covering, or packaging material or container;

(iii) any portion or part of any item described in clause (i) or (ii);

(B) any work made for hire; or

(C) any work not subject to copyright protection under this title.

A "work of the United States Government" is a work prepared by an officer or employee of the United States Government as part of that person's official duties.

A "work made for hire" is –

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding,

illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

A "computer program" is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.

§ 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, reaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

§ 117. Limitations on exclusive rights: Computer programs

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

> (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or
>
> (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease sale, or other transfer of all rights in the program. Adaptation so prepared may be transferred only with the authorization of the copyright owner.

Supreme Court, U.S.
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No. 95-808

In The

Supreme Court of the United States

October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

Petitioners,

vs.

TRIAD SYSTEMS CORPORATION,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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COUNTER-STATEMENT OF QUESTION PRESENTED

The sole question presented is whether a computer service provider that routinely copies highly creative computer service software in its entirety, without the copyright holder's authorization, for commercial purposes, thereby depriving the copyright holder of potential license revenues, commits copyright infringement or instead can successfully invoke the Copyright Act's fair use defense, 17 U.S.C. § 107. Neither of the other two questions raised in the petition was raised in the Court of Appeals, and therefore neither is properly presented to this Court.

PARTIES TO THE PROCEEDING

Respondent Triad Systems Corporation is a California Corporation. Petitioners are properly identified in the petition for writ of *certiorari*.

RULE 29.1 LISTING

Pursuant to Rule 29.1, respondent Triad Systems Corporation discloses that it has no subsidiary or affiliate that has issued shares to the public.

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RESPONDENT'S BRIEF IN OPPOSITION

Respondent Triad Systems Corporation ("Triad") opposes the petition for writ of *certiorari* ("petition") filed by Southeastern Express Company, George Barnes, Gerry Wambolt, and Kevin Clark (collectively, "Southeastern") to review the judgment of the United States Court of Appeals for the Ninth Circuit.

OPINIONS BELOW, JURISDICTION, AND STATUTORY PROVISIONS INVOLVED

The petition properly identifies the opi ions below, the basis for jurisdiction in the District Court and the Court of Appeals, and Southeastern's stated basis for invoking this Court's jurisdiction. The petition also sets forth the pertinent provisions of the relevant statute, the Copyright Act, 17 U.S.C. § 101 *et seq.*

INTRODUCTION

Southeastern wants to provide computer maintenance services in competition with Triad, which developed its own specialized computer system, complete with copyrighted software. Some of Triad's software was developed specifically to facilitate computer maintenance: "service software." Southeastern could license the service software from Triad, but won't, because Southeastern says it is "philosophically" opposed to paying license fees to a competitor. Southeastern has not even explored whether it could write its own software or hire someone to do so.

So Southeastern resorts to larceny. Without Triad's permission, Southeastern uses, and in the process copies, service software owned by Triad, licensed to mutual customers of Triad and Southeastern, and resident on the customers' computers. After a jury unanimously (and quickly) found this to be copyright infringement, the District Court issued a preliminary injunction. The Ninth Circuit affirmed.

Southeastern says this unexceptional outcome is worthy of Supreme Court review because the case presents three important copyright issues. That is false. Two of the three questions Southeastern identifies – whether an electronic copy of a software program is an infringing "copy" under the Copyright Act, and

whether licensees have the rights of "owners" under the Act – are not presented. They are long-settled issues that, probably because they are long-settled, were not argued to the Court of Appeals, which therefore said nothing about them. The third question, which is whether the "fair use" doctrine excuses Southeastern's deliberate appropriation of Triad's copyrighted service software – *not*, as Southeastern states, inadvertent copying of Triad's operating system software – was argued below. But Southeastern does not claim the lower courts' decisions rejecting the fair use defense are in conflict with any other copyright case, and they are not. The conflict Southeastern does assert, with an antitrust decision of this Court addressing no copyright issues whatever, is contrived.

There is, accordingly, nothing about this case worthy of review. The limited resources of this Court are hardly needed to determine whether a district court judge can preliminarily enjoin one service company from continuing to steal the copyrighted service software of another pending resolution of all remaining issues in the case. The petition for writ of *certiorari* should be denied.

COUNTER-STATEMENT OF THE CASE

Triad

Triad is a computer manufacturer and software developer based in Livermore, California. It makes computer systems for the automotive aftermarket, *e.g.*, auto parts wholesalers and retailers ("jobbers"). Triad has always marketed turnkey computer solutions – everything its customers need to operate and get maximum benefits from their Triad computers. SR138-144.[1] That includes hardware, industry-specific inventory management and financial

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[1] Record citations are to Southeastern's petition ("Pet."), the appendix to it ("Pet. App."), the clerk's record below ("CR"), Southeastern's excerpt of record filed with the Ninth Circuit ("ER"), and Triad's supplemental excerpt of record filed with the Ninth Circuit ("SR"). The Ninth Circuit's decision appears at Pet. App. 1-22, the District Court's Order of Preliminary Injunction ("Injunction") appears at Pet. App. 23-31, and the District Court's Findings of Fact Regarding Fair Use appear at Pet. App. 32-38

software, information services products such as automated price updating, and post-sale service and training.

This case concerns a family of Triad computers introduced in 1984, known as the Series 12. SR139. Triad developed and copyrighted three different types of software for the Series 12: operating system software, applications, and service utilities. Pet. App. 4. Triad's service software is at the heart of this case.[2]

Triad developed nearly 200 service software programs to help maintain the Series 12. Principal among these are data file "maintenance" programs (SR139), a communications program called REST that allows systems to be serviced remotely (SR157, ER219, ER241, SR169, 197-202), and various diagnostic programs, which tell technicians what's wrong with a system's software or hardware. SR168-170, ER241-244; *see also* Pet. App. 35 ¶ 10.

When Triad delivers a system to a customer, it delivers software tapes that contain the operating system software and substantially all of the service utilities. The operating system must be available to the customer because it is "necessary to run any other program on the computer" (Pet. App. 4), including the applications programs customers pay to use. The service utilities, on the other hand, are on the tapes so that Triad's service technicians can use them, either on site or remotely through the REST link, without interrupting customers' use of their computers. ER241, SR169, 197-202. Customers are also licensed to use the utilities, but virtually all hire someone else, Triad or Southeastern, to do so. SR208-209.

This case is not about Southeastern's arguably inadvertent use of Triad's operating system software in the course of turning on its customers' computers, though Southeastern likes to say that. *See, e.g.*, Pet. at 2, 13. It is about Southeastern's deliberate use of Triad's service software to repair and maintain its customers' computers.

---

[2] It is undisputed that Southeastern also uses, and in doing so copies, Triad's operating system software, primarily by turning on its customers' computers. Pet. App. 5. The Injunction expressly allows Southeastern to do this. Pet. App. 29-30 ¶ 3.

Southeastern and Its Use of Triad Service Software

Southeastern is an independent service organization ("ISO") based in Macon, Georgia. It was formed in 1989 by a former Triad salesman, petitioner George Barnes; in 1991, Barnes was joined by two other former Triad employees, petitioners Gerry Wambolt and Kevin Clark. ER263. Southeastern has three businesses: (1) it provides computer repair services to Series 12 owners; (2) it buys and resells used Series 12 systems with Triad software on them; and (3) it develops and markets its own software and information services products for the Series 12 system. Only Southeastern's service business is at issue here. Pet. App. 4 n.2.

Southeastern has over 350 service customers under contract. It attracts them by promising them "the best for less," *i.e.*, all the benefits of Triad's highly valued software programs without Triad's standard fees. SR441-443. Like Triad, Southeastern sells service contracts in which it agrees to provide, for a fixed monthly fee, whatever hardware service, advice line service ("how to" telephone support) and software support (the services made possible by Triad's utilities) its customers may need. SR204; *see also* Pet. App. 23 ¶1 (Judge Smith found Southeastern's service "contracts give Southeastern an incentive to use Triad's utility software programs"). These contracts are, as Southeastern's witnesses put it, in the nature of insurance policies; no matter what malfunctions, Southeastern is obligated to repair it. SR203-204. Southeastern's service contract fees average about $250 per month. SR302.

Customers demand complete service for that kind of money – a reasonable expectation, given that Southeastern's advertising and customer solicitations promise "complete repair service." SR440, SR205-209. That promise is critical: Southeastern's trial witnesses testified that Southeastern could not successfully market its service agreements without offering to provide "complete repair service," including software support. SR225-227.

Since Southeastern has not developed its own service utilities, it provides software support by using Triad's.[3] There is no question

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[3] Southeastern complains that it is unable to write its own utilities. Pet. at 3-4. But competent evidence of this has never been produced, and the record establishes

about this. All of Southeastern's trial witnesses admitted that it was company policy to use, and in the course of using copy, Triad's service software, without restriction, whenever necessary to repair or maintain customers' computers. SR224, SR260-262, SR327-328, SR337-338, ER337 (showing that Southeastern customers received utility service). Accordingly, Judge Smith found that Southeastern "does not limit its use of Triad's software to just turning on the Triad computer such that the operating system is copied into RAM [random access memory]," but rather "goes beyond that" and copies "whatever Triad software Southeastern deems necessary to service its customers' Triad systems." Pet. App. 36 ¶ 13. The Ninth Circuit reached a similar conclusion. Pet. App. 5, 14.

Indeed, Southeastern's service business is built on this sort of copying. Judge Smith observed that "witnesses for both parties testified at trial that use of Triad's service software is essential for an independent service provider like Southeastern to remain in the business of providing service contracts on Triad systems." Pet. App. 37 ¶ 17. Southeastern's disingenuous claim that it "sells only its labor, experience, and skill" (Pet. at 22) ignores the importance of Triad's service software. Without it, Southeastern could not be in the service business.

Southeastern's use of Triad's service software is larceny: Southeastern does not have the tools to perform software maintenance itself; Triad does; Southeastern won't pay Triad to use its tools; and instead Southeastern just takes them when it feels the need. That is what the case is about.

Southeastern Does Not Use Its Customers' Software; It Uses Triad's

Southeastern claims the Injunction prevents it from using its customers' software in the course of maintaining their computers. Pet. at 8-9, 17-18, 23-24. That is false.

Since 1985, Triad has marketed its computer systems under combination sales and licensing agreements whereby the customer buys, and thereafter owns, the computer hardware, but merely

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that Southeastern has never tried to develop any utilities. It chose instead to use Triad's. SR236-238, SR327-336.

licenses the software. SR147-149, SR447-448. Judge Smith found that under these agreements:

> Triad owns its software and the customer acquires a restricted right to use the software. The license allows only the Triad customer itself or its direct employees to use or distribute the software described in the license. The license prohibits the customer from allowing others . . . to use it.

Pet. App. 34 ¶ 4. The Ninth Circuit made the same finding. Pet. App. 5.

Triad's software licensing terms are standard. Similar language can be found in treatises on software agreements, as well as case law discussing other companies' licenses. *See, e.g.*, Robert P. Bigelow, *Computer Contracts: Negotiating and Drafting Guide* (1987) Form 8.06[2] at pp. 8-62-8-63 (Rel. 12/11/93); L.J. Kutten, *Computer Software: Protection Liability Law Forms* (1987) § 8.02[2][g][ii]; *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 n.3 (9th Cir. 1993), *cert. dismissed*, 114 S.Ct. 671 (1994).

Years ago, Judge Smith expressly held that Southeastern may freely use customer-owned software, *i.e.*, software obtained under the sales agreements Triad used until 1985. SR3-44. The Injunction is consistent with that holding; it only prohibits Southeastern from using Triad-owned software licensed to customers under Triad's post-1985 agreements. Pet. App. 24-30 ¶¶ 1(a), 1(c), 2-3. The Ninth Circuit agreed with Judge Smith's interpretation of Triad's agreements and found that the Injunction struck the proper balance between Southeastern's right to perform service for customers who purchased their software from Triad, and its corresponding duty to refrain from providing service to customers who licensed Triad-owned software. Pet. App. 4-5, 16.[4]

Southeastern's Refusal to Obtain its Own License

Southeastern says that Triad is trying to monopolize the service business by preventing Southeastern from using service

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[4] Southeastern pays no attention to these different agreements in any event. Its witnesses admitted at trial that they make no effort to determine whether a potential customer has purchased or licensed its software before agreeing to provide service. SR222-223.

utilities. Pet. at 23. In fact, Triad has been willing to license Southeastern. Southeastern just refuses to consider it.

Triad did not offer Southeastern a license before filing suit. Confronted with a broad pattern of copyright infringement, Triad immediately pursued its legal and equitable remedies.[5] Triad has no obligation to offer Southeastern a license,[6] but has been willing to license Southeastern for a mutually agreeable royalty. SR153-153.1, ER157-158 (regarding a specific license offer made). The problem is that Southeastern won't pay anything because of its "philosophy." Here is how Southeastern's Vice President testified:

> Q. Have you ever asked Triad to license you that software?
>
> A. No, I haven't.
>
> Q. Is there a price that you'd be willing to pay?
>
> A. I don't think I would be willing to pay a price to use – to go in – to be competing with what would become my vendor, at that point in time, which would be Triad Systems. And I think that it's extremely objectionable . . . . That would be my position.
>
> * * *
>
> Q. Putting that aside for the moment, has there ever been an occasion in which Southeastern has tried to determine whether it could afford to pay a software license to Triad?
>
> A. No, I don't think so because of the philosophical objection.
>
> Q. Okay.
>
> A. There are certain things that I will not consider doing in life, because of personal conviction.

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[5] This bothered Judge Smith, who said that Triad could have "handled [the matter] a little more tactfully." ER406. But, she noted, "good manners is not [the] issue." *Id.*

[6] *See Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1187-89 (1st Cir. 1994); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 686 (4th Cir. 1992); *Advanced Computer Servs., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 370 (E.D. Va. 1994).

SR228-230. Southeastern's President shares this philosophy. SR231, SR259-261 ("I can't in my wildest dreams imagine having to pay a fee to Triad or anybody else for going out and helping a customer fix his computer with software that he rightfully has").[7] It is this philosophy, in fact, that leads Southeastern to simply take the software it could license but won't pay for.

Southeastern's Persistent Claim That This Case is About Automatic Copies of the Operating System Made in RAM

Southeastern constantly tries to muddle its deliberate copying of Triad's service software with the copying of the operating system into RAM that occurs automatically whenever Southeastern turns on a customer's computer. Its latest tactic is to incorrectly construe the term "operating software" used in Triad's license agreements as proof that the service software and the operating system are the same. Pet. at 3. In reality, they are quite different: Operating system software organizes and controls access to the hardware, acting as a computer's internal "traffic cop." SR155. It is in constant use. Service software, on the other hand, maintains, diagnoses, and repairs the hardware and the software on command, like an automated computer technician. SR155-156.1. It is accessed specifically to perform service. Judge Smith and the Ninth Circuit both recognized this distinction, which is fundamental to their decisions. Pet. App. 4, 25 ¶ 1(d)(i)-(iii). Regrettably, both first had to fight through the same disinformation presented to this Court.

The District Court

Southeastern first made this misrepresentation years ago, in connection with one of Triad's pre-trial motions for a

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[7] In its petition, Southeastern attacks Triad's characterization of Southeastern's philosophy as akin to that of a tax protester, and calls Triad's offer "a ploy." Pet. at 8 n.4, 19 n.12. In doing so, however, Southeastern confirms that it would not under any circumstances entertain an offer to license, ploy or not, and once again gives reasons for its admittedly "steadfast" refusal that are, at best, "philosophical." *Id.*

preliminary injunction. At a hearing in December, 1993, Judge Smith indicated her willingness to consider the viability of Southeastern's fair use defense, provided that "the software that is used or becomes part of the operation when the servicing is done is the operating system software," and not the diagnostics or other utilities. SR54-56. This was a false premise, since Southeastern routinely uses the diagnostic and utility software to perform service. SR158, ER222, SR161-165, ER240. But rather than telling Judge Smith that, Southeastern told a great untruth, that "operating software is the key" for Southeastern's business. Southeastern even conceded that Triad should be paid for Southeastern's use of Triad's service software, telling Judge Smith:

> MR. KATZ [Southeastern's counsel]: . . . And I absolutely agree with you. *If we copy their [Triad's] diagnostic software for the purpose for which it's intended, they deserve a royalty on that.*
>
> THE COURT: Absolutely.
>
> MR. KATZ: No question about it.

SR54-57 (emphasis supplied).

The misrepresentation had its intended effect: On March 18, 1994, Judge Smith issued a 53-page decision denying Triad's motion on the ground that merely copying operating system software might be a fair use. ER65-117. The decision shows that Southeastern had succeeded in convincing Judge Smith that Southeastern's use of the operating system software required merely to "turn on the computer" was "the key."

Triad's copyright claims were tried to a jury between January 12 and February 3, 1995.[8] In that forum, Triad proved, and Southeastern's witnesses admitted, that Southeastern used Triad's copyrighted service software without limitation. *That* –

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[8] Trial was bifurcated so that Triad's copyright infringement and related unfair competition claims, together with Southeastern's fair use defense, were tried in 1995, and Southeastern's counterclaims are set for trial in June, 1996. The Ninth Circuit found that bifurcation was justified and within Judge Smith's discretion. Pet. App. 17-18.

not turning on computers – was the key. Triad also proved the extent of its investment in the service software, how creative it is, and how Triad obtains its return on that investment through service fees and improved efficiency. SR152-153, SR155-156, SR170-176, ER242. And Triad proved that it had lost hundreds of customers and many hundreds of thousands of dollars of profit on account of Southeastern's unlicensed use of Triad's service software. SR305, ER317.

During trial, Judge Smith directed a verdict on the fair use defense as it pertained to the service software. ER414-417. Central to her decision was her realization that, contrary to Southeastern's representation at the 1993 hearing, Southeastern's intentional use of specialized service software, not the automatic loading of the operating system when the computer is turned on, was the key. Judge Smith explained this when Southeastern argued, again, that this case was "truly unique."

> THE COURT: [L]et me say something about that, Mr. Christopher [Southeastern's counsel]. I thought that was true before this trial, because I really thought that maybe all you did was come in and turn it on. And, you know, [Southeastern's counsel] Mr. Katz, is very – creatively, as a good advocate does, kept pulling that. Well, you know, does anybody charge a license fee to come in and turn it on? [B]ut that's not all you do. You don't just come in and turn it on and then go home. You come in; you turn it on, and then you use the software to do your thing. And so it's not just *MAI*. It's what happens after the computer gets turned on.

ER401-402.

On February 3, 1995, after just three hours of deliberations, the jury returned a verdict for Triad on all three counts of copyright infringement and awarded Triad $738,172 in damages. After trial, Triad moved for a permanent injunction preventing Southeastern from continuing to infringe. Even then, Southeastern once again told Judge Smith "we were just out there turning on the computers, you know." CR414 at 19.

Judge Smith made it clear that she knew better, stating that "*it's clear to me that that's not all they do, you know . . .* And I would suggest that, if the evidence had showed that was all they do, my decision on fair use would likely have been quite different. *But that was not what the evidence showed.*" *Id.* at 22-23 (emphasis added). Accordingly, Judge Smith issued the Injunction.[9] It was, the Ninth Circuit noted, "a long step forward for Triad." Pet. App. 7.[10]

The Ninth Circuit

Southeastern tried the same disinformation strategy with the Ninth Circuit. Petitioning for a stay of the Injunction pending appeal, it told a motions panel that this was a "turn-on-the-computer-and-go-to-jail" case.[11] Southeastern's misrepresentations enabled it to obtain a stay. Pet. App. 7. But Southeastern's case once again crumbled on closer inspection.

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[9] The Injunction was not hastily granted. Judge Smith denied all three of Triad's pre-trial preliminary injunction motions in order to give Southeastern "every opportunity to explore" its legal theories. CR364 at 1183. Only after that exploration turned out to be a farce, and the jury found for Triad, did she enjoin Southeastern, and even then only temporarily, rather than permanently, as Triad had requested. That is far more extensive due process than parties opposing injunction motions normally enjoy, the Ninth Circuit found, and yet another indication Judge Smith acted within her discretion. Pet. App. 17.

[10] Southeastern never discusses the Injunction or the applicable scope of this Court's review. That is not surprising, considering the deference Judge Smith's decision must be given. The Ninth Circuit correctly applied the rule that an order granting a preliminary injunction is "subject to limited review," to be reversed only for an abuse of discretion or application of an erroneous legal standard or clearly erroneous findings of fact. Pet. App. 8. Further disfavoring Southeastern's petition is this Court's usual practice to "await final judgment in the lower courts before exercising [ ] *certiorari* jurisdiction." *Virginia Military Inst. v. U.S.*, 113 S.Ct. 2431, 2432 (1993) (Scalia, J. concurring) (denying *certiorari* for case on remand to district court). The interlocutory nature of Southeastern's petition "itself alone" is sufficient reason to deny it. *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 258 (1916) (same).

[11] The complete transcript by a certified court reporter of the oral argument before the Ninth Circuit motions panel was submitted to Justice O'Connor with Triad's brief in opposition to Southeastern's application for a stay pending *certiorari*.

The Ninth Circuit merits panel unanimously affirmed the grant of the Injunction based on its findings that Triad was likely to succeed on the merits of its copyright claims and that Triad had shown a likelihood of irreparable harm. Pet. App. 9-11. The court rejected Southeastern's numerous counter-arguments and defenses, including fair use, copyright misuse,[12] claimed errors in the conduct of trial, and the alleged overbreadth of the Injunction, but, significantly, *not* including the first two issues in Southeastern's petition: RAM copying and Section 117. *Id.* Southeastern's petition for rehearing was denied, its suggestion for rehearing *en banc* was rejected, and the stay pending appeal was lifted.

Southeastern's Previous Application to This Court

Southeastern then asked Justice O'Connor to stay the Injunction pending *certiorari*. And Southeastern told Justice O'Connor, as it had told Judge Smith and the Ninth Circuit, that "the principal question raised by this case" was whether Southeastern and other ISOs could "operate their clients' computers during the course of their work (thereby loading the client's software into RAM)." Stay Application (dated October 18, 1995) at 2-3. No mention was made of Southeastern's deliberate, extensive use of Triad's service software to perform the service routines for which Triad created it. On October 20, 1995, Justice O'Connor issued a temporary stay, but on October 26, 1995, the day after Triad filed its opposition, she vacated the stay and denied Southeastern's application "in all respects." Order (dated October 26, 1995) at 1.

We have retold this history because the Court needs to understand that this case is solely about one service company misappropriating its competitor's copyrighted service tools, not about some technological trap that leads to pernicious monopolies. When that is understood, it is a very easy case.

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[12] Judge Smith granted Triad summary judgment on Southeastern's copyright misuse defense on June 8, 1995, and the Ninth Circuit agreed with that ruling. Pet. App. 15.

REASONS WHY THE WRIT SHOULD BE DENIED

I. THE COURT OF APPEALS DID NOT CONSIDER, LET ALONE DECIDE IN A WAY THAT CONFLICTS WITH OTHER CIRCUITS, WHETHER LOADING A SOFTWARE PROGRAM INTO RAM CREATES A "COPY" OF THE PROGRAM UNDER THE COPYRIGHT ACT.

A. The Issue of Whether RAM Copying is Infringement Was Not Addressed Below.

It is apparent from Southeastern's petition that it really wants the Court to review *MAI Systems Corp. v. Peak Computer*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S.Ct. 671 (1994), in which the Ninth Circuit held that loading a software program into a computer's RAM creates a "copy" of the program under the Copyright Act. Southeastern devotes four pages to *MAI*, which it claims escaped review because it was settled. *See* Pet. at 10 n.6, 14 n.9. Southeastern says the Court can review *MAI* here because the decision below was "grounded" on *MAI*, which Southeastern "challenged." *Id.* But that's not true.

Southeastern did not challenge *MAI* below, as an exchange between the Ninth Circuit panel and Southeastern's counsel during oral argument shows:

> THE COURT: How do you deal with the *MAI*?
>
> MR. KATZ [Southeastern's Counsel]: Well *MAI* – we can live with *MAI*. *MAI* is an incomplete case because it does not do the fair-use analysis.

App. 1 at 19.[13]

The truth is that Southeastern complained to Judge Smith about *MAI*, and once said it would ask the Ninth Circuit to reconsider its holding regarding RAM copying. But then

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[13] In its petition, Southeastern quotes only the Ninth Circuit's part of this exchange and claims that it shows *MAI* was challenged below. Pet. at 13. To avoid further misrepresentations of this type, attached to this brief is a complete transcript by a certified court reporter of the Ninth Circuit's official recording of the oral argument (cited here as "App.").

Southeastern chose not to do so when it appealed the issuance of the Injunction. Consequently, there is no mention of this argument in Southeastern's Ninth Circuit briefs, which were styled as raising other issues, supposedly arising "in the wake of" *MAI*, principally fair use. Ninth Circuit Opening Br. at 2; Ninth Circuit Reply Br. at 1.

Southeastern is thus raising here an argument it declined to raise before the Court of Appeals. That is improper. *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 39 (1989) (absent exceptional circumstances, new arguments may not be raised before this Court); *California v. Taylor*, 353 U.S. 553, 557 n.2 (1957) (argument made in district court but not in court of appeals was waived); *see also* Robert L. Stern *et al., Supreme Court Practice* 342-43 (7th ed. 1993) ("The Court does not sit to resolve issues that might have been but were not raised below").[14] On this ground alone the petition should be denied.

B. There is No Conflict Over Whether Copying Software into RAM is Copyright Infringement.

Even if Southeastern could now belatedly challenge *MAI*, there would be no reason to overturn it. The decision is not the aberration Southeastern claims it is. The proposition that RAM copies qualify as "copies" under the Copyright Act is at least ten years old, and has never been rejected by any court, to

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[14] *See also EEOC v. FLRA*, 476 U.S. 19, 24 (1986) (dismissing writ as improvidently granted because question presented was not raised on appeal: the Court's "normal practice . . . is to refrain from addressing issues not raised in the Court of Appeals"); *United States v. Alvarez-Sanchez*, 114 S. Ct. 1599, 1605 n.5 (1994) (finding no exceptional circumstances to warrant review of claim waived below); *Price Waterhouse v. Hopkins*, 490 U.S. 228, 240 n.5 (1989) (refusing to address argument not made on appeal); *Oneida County v. Oneida Indian Nation*, 470 U.S. 226, 245 (1985) (refusing to reach claim raised at trial but not on appeal). The sole case Southeastern relies on in its effort to get the Court to depart from its normal practice, *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1099 n.8 (1991), is distinguishable, as it involved litigated issues " 'in a state of evolving definition and uncertainty' " and "important to the administration of federal law," not routine matters conceded below.

Triad's knowledge. *See, e.g., NLFC Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 (7th Cir.), *cert. denied*, 115 S.Ct. 2249 (1995) ("Neither party disputes that loading software into a computer constitutes the creation of a copy under the Copyright Act"); *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255, 260 (5th Cir. 1988) ("the act of loading a program from a medium of storage into a computer's memory constitutes a copy of the program"); A*pple Computer, Inc. v. Formula International, Inc.*, 562 F. Supp. 775 (C.D. Cal. 1983) (copying from a diskette into RAM memory is a copy), *aff'd*, 725 F.2d 521 (9th Cir. 1984); *Advanced Computer*, 845 F. Supp. at 364 & n.9 (collecting cases and noting no contrary authority); *see also* Information Infrastructure Task Force, *Intellectual Property and the National Information Infrastructure: Report of the Working Group on Intellectual Property Issues* 66 n. 204 (1995) (noting that *MAI*'s "holding that booting a PC involves copying the operating system seems quite unexceptional"). It is no wonder Southeastern does not even claim there is a conflict among the circuits on this issue, or any other ground for review found in Rule 10.

Did all the courts get this issue wrong? Of course not. When Congress enacted the Computer Software Copyright Act of 1980, it substantially adopted the findings and recommendations of CONTU, the National Commission on New Technological Uses of Copyrighted Works, established in 1974.[15] CONTU recognized that under the Copyright Act of 1976, using a software program, which entailed copying it into RAM, "is the preparation of a copy and, therefore, a potential infringement of copyright."[16] It is precisely because of that recognition that CONTU recommended amending Section 117 of the Copyright Act, 17 U.S.C. § 117, to permit limited electronic copying of software programs. CONTU Report at 13; *see also Vault*, 847 F.2d at 260. It makes no sense, then, to think that electronic copies of software programs cannot constitute infringement; if so, Section 117 would be superfluous.

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[15] With one notable exception, relevant to this case. Page 20, below.

[16] Final Report of the National Commission on New Technological Uses of Copyrighted Works (July 31, 1978) ("CONTU Report") at 12. *See also id.* at 22 (copying "into the memory of a computer" is also copying under the law).

The entire thrust of the 1980 Act, moreover, was to ensure that copyright law was technologically up to date, so that software programs would have full copyright protection. CONTU recognized copying software programs was easy, and virtually cost-free. CONTU Report at 10. It further recognized that "[a] computer program may be misappropriated in a variety of ways," and that as technology advanced, more methods of misappropriation would likely arise. *Id.* at 22. CONTU used "copying" as the demarcation line between misappropriation that copyright law could and could not address, *id.*, and Congress followed its lead. So in this case, which involves Southeastern "commandeering" Triad's valuable service software through a process that indisputably involves copying – and a form of copying CONTU explicitly deemed infringement – the policies of the 1980 Act are wholly in Triad's favor.

Southeastern answers all of this with a hyper-technical argument about whether electronic copies are sufficiently "fixed" to satisfy the Copyright Act's definition of a "copy." *See* 17 U.S.C. § 101. But CONTU specifically addressed this: it found that "[b]ecause works in computer storage may be repeatedly reproduced, they are fixed and, therefore, are copies." CONTU Report at 22. It further found that copies made in a computer's memory are fixed, because in memory the program "still exists in a form from which a human-readable version may be produced." *Id.*

The statutory definition of "copies," moreover, excludes only "transitory" reproductions, not all temporary ones. *Id.* The cases addressing this issue have uniformly recognized that, while temporary, "the RAM representation of [a software] program is sufficiently 'fixed' to constitute a 'copy' under the Act." *Advanced Computer,* 845 F. Supp. at 363.[17]

This is not only good legal analysis, it makes sense. As the court in the analogous *Advanced Computer* case recognized,

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[17] The dictum Southeastern quotes from *Apple Computer, Inc. v. Formula Intern., Inc.*, 594 F. Supp. 617, 622 (C.D. Cal. 1984), to the effect that a RAM copy is a "temporary fixation," does not help Southeastern. Pet. at 12. To the contrary, as the Ninth Circuit recognized in *MAI*, it establishes that a RAM copy is sufficiently "fixed" to be a "copy" under the Copyright Act. *MAI*, 991 F.2d at 519.

ISOs like Southeastern do not just come in and turn on the computer for an instant; they copy software into RAM and keep it there for exactly as long as they are using it, thereby appropriating the software's economic value. 845 F. Supp. at 363, 366; *see also* Pet. App. 36 ¶13 (making similar finding about Southeastern). It would make no sense to call that "transitory," unimportant copying. It is copying that deprives the copyright holder of its just reward.

The fact that Southeastern does not merely "turn on" computers is also the complete answer to the law review articles discussing *MAI* that Southeastern cites. Pet. at 5.[18] The articles – which are of course about *MAI*, not this case – criticize *MAI* for supposedly holding that "any time a third party turns on a computer, she is infringing the system software's copyright unless she has purchased a license."[19] That is not the rule of this case, however, because the Injunction expressly permits Southeastern to turn on its customers' computers. Page 6, above. This case involves far more extensive, deliberate infringing activity: Southeastern is "commandeering" Triad's service software "and using it for the very purpose for which, and in precisely the manner in which, it was designed to be used." Pet. App. 14.

Southeastern told the Ninth Circuit it could live with *MAI*. It did not raise the electronic copying issue, and the Ninth Circuit did not rule on it. Nor is the proposition that electronic copying may be infringement controversial, especially when applied to the facts of this case. It should not be considered by this Court.

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[18] Ironically, during oral argument before the Ninth Circuit, Southeastern's counsel said the articles were "unfairly critical" of *MAI*. App. 19. One of the articles Southeastern most frequently cites was written by its own counsel. Bradley J. Nicholson, *The Ghost in the Machine:* MAI Systems Corp. v. Peak Computer, Inc. *and the Problem of Copying in RAM*, 10:1 High Technology Law Journal 147, 165 n.107 (1995). *See* Pet. at 6 n.2, 9, 12.

[19] Katrine Levin, MAI v. Peak: *Should Loading Operating System Software Into RAM Constitute Copyright Infringement?*, 24 Golden Gate L. Rev. 649, 650 (1994) (*cited at* Pet at 6 n.2).

II. THERE IS NO CONFLICT AMONG THE CIRCUITS AS TO WHETHER LICENSEES HAVE THE RIGHTS OF "OWNERS" UNDER THE COPYRIGHT ACT, 17 U.S.C. § 117.

A. The Purported Section 117 Issue Is Not Properly Before This Court.

Section 117 of the Copyright Act, 17 U.S.C. § 117, provides that "it is not infringement for the *owner* of a copy of a computer program" to authorize another to make a copy of that program "as an essential step in the utilization of the computer program" or for "archival purposes." (Emphasis added). Early in the District Court proceedings, Southeastern argued that Section 117 immunized its copying of Triad's service software. In December, 1992, Judge Smith ruled that was partly right, partly wrong: Southeastern could copy software that Triad had *sold* to third parties, but not software under license. Page 6, above. Judge Smith also noted that in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988), the Fifth Circuit held that under some circumstances, license terms contrary to Section 117 might not be enforceable. SR19. Southeastern seized on this argument, but lost. In March, 1994, and again in April, 1994, Judge Smith rejected Southeastern's "public policy argument" and ruled that Triad's licenses were enforceable according to their terms and therefore did not give rise to any Section 117 rights. ER70-73, 75, 112, CR273 at 5-6.

At trial, Southeastern complained from time to time that Triad's licenses were "sale-like," but did not press the point seriously. For example, although Southeastern announced its intention to make a directed verdict motion based on *Vault* (CR377 at 2404), it never did. More importantly, Southeastern did not make this argument to the Ninth Circuit. To the contrary, Southeastern's Ninth Circuit briefs acknowledge that Section 117 applies only to "software *owners*" (Ninth Circuit Opening Br. at 18 (emphasis in original)), and stress that Congress has been asked to change that. Ninth Circuit Reply Br. at 8. Moreover, the footnote from Southeastern's Ninth Circuit brief that Southeastern now cites as evidence that it raised this issue below (Pet. at 15 n.10 (*citing* Ninth Circuit Opening Br. at 21-22 n.14)), is the exception that proves

the rule. The footnote uses Section 117 as lateral support for a *different* argument: that Southeastern believed in good faith that its conduct was a fair use.[20]

But in the Ninth Circuit, Southeastern never made the *Vault* argument on which it seeks *certiorari*, or any other argument to the effect that Triad's licensees should have Section 117 rights. That explains why the Ninth Circuit cited Section 117 only in passing (Pet. App. 4 n.3) and did not cite – let alone discuss – *Vault* at all. In fact, Southeastern admitted in its application to Justice O'Connor for a stay of the Injunction that the Ninth Circuit never addressed the "issue over the application of 17 U.S.C. § 117 to the facts of this case." *See* Stay Application (dated October 18, 1995) at 5.

This Court has made it clear many times that it does not consider issues not addressed by the Court whose decision it is reviewing. Page 14, above. One logical reason for this policy is that the Court "lack[s] guidance from the District Court or the Court of Appeals on [ ] issue[s]" which have "not been adequately briefed and argued" below. *Granfinanciera*, 492 U.S. at 38-39. The alleged conflict with *Vault* regarding Section 117 falls squarely into this category. The Ninth Circuit did not reject *Vault;* it was never given the chance. There is, accordingly, nothing for this Court to review.

B. There Is No "Split" Among Circuit Courts As To Section 117's Interpretation.

Southeastern claims there is a "split in the circuits regarding the interpretation of 17 U.S.C. § 117" allegedly created by *Vault*. Pet. at 16. There is no split. To repeat, Judge Smith accepted *Vault*. SR 19. She simply limited the decision to its actual holding, rather than adding what Southeastern tries to wring out of it. And no circuit, including the Fifth Circuit in *Vault*, has ever held that Section 117 applies to genuine licensees of a copy of a computer program.

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[20] This was vintage Southeastern, which threw in cites to Section 117 in support of several other arguments not relevant here. Ninth Circuit Opening Br. at 14, 18, 33-34; Ninth Circuit Reply Br. at 8.

The courts have consistently found the term "owner" in Section 117 to mean what one would think it means: a purchaser, buyer, or title holder – *not* a licensee. *See, e.g., Aymes v. Bonelli,* 47 F.3d 23, 25 (2nd Cir. 1995) (indisputable that plaintiff "sold defendants the computer program and that defendants [were] therefore the rightful owners of the program" for purposes of Section 117); *S.O.S., Inc. v. Payday, Inc.,* 886 F.2d 1081, 1089 n.9 (9th Cir. 1989) (under Section 117, an "owner of a copy of software has certain rights under the Copyright Act which a mere possessor does not").[21] The distinction between an "owner" and a "licensee" is, after all, elementary. One would not expect courts to struggle with the difference, and they have not.

It is especially unlikely that the courts would confuse "owners" and "rightful possessors" (Southeastern's preferred title) in light of Section 117's legislative history. As Southeastern concedes, Congress' 1980 amendments to the Copyright Act adopted CONTU's recommendations for amending Section 117 *with one exception:* Congress replaced "rightful possessor" with "owner." Pet. at 17; *see also Vault,* 847 F.2d at 260-61 & n.11; *Allen-Myland v. International Business Machines Corp.,* 746 F. Supp. 520, 536 (E.D. Pa. 1990). In other words, Congress deliberately rejected language which might have permitted the interpretation of Section 117 Southeastern wants this Court to adopt in favor of language which led inevitably to the decision below.

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[21] *See also CMAX/Cleveland, Inc. v. UCR, Inc.,* 804 F. Supp. 337, 356 (M.D. Ga. 1992) (rejecting defendants' Section 117 defense because they only leased and did not own a copy of plaintiff's software); *Advanced Computer,* 845 F. Supp. at 367 (rejecting Section 117 defense because it only permits "owners" of a computer program to make or authorize the making of copies; licensees are not owners of the software and possess only the rights in their license agreements); *Synergistic Technologies v. IDB Mobile Communic.,* 871 F. Supp. 24, 29 (D.D.C. 1994) (defendant owned a copy of plaintiff's software because "title to . . . a copy of the software passed to [the defendant] at the time of delivery"); *Micro-Sparc, Inc. v. Amtype Corp.,* 592 F. Supp. 33, 34 (D.C. Mass. 1984) (purchaser of a computer program was the "owner" of a copy); *Hubco Data Products Corp. v. Management Assistance, Inc.,* 219 U.S.P.Q. 450, 456 (D.C. Idaho 1983) (Section 117 defense did not apply because alleged infringer was not the owner of the copy of the software).

Southeastern apparently thinks that because Congress did not explain itself, the substitution of "owner" for "rightful possessor" should be ignored.[22] But the substitution was self-explanatory; the terms, and the difference between them, are plain. *See F.D.I.C. v. Meyer*, 114 S.Ct. 996, 1001 (1994) (an undefined statutory term is given its "ordinary or natural meaning"); *Rake v. Wade*, 113 S.Ct. 2187, 2191 (1993) (when statutory language is clear, it should be enforced according to its terms). Indeed, the Fifth Circuit in *Vault*, the case Southeastern says is in conflict with the decisions below, recognized the difference: it noted without controversy that Section 117 "grants 'owners,' *as opposed to 'rightful possessors*,' " limited copying and adaptation privileges. *Vault*, 847 F.2d at 260 n.11 (emphasis added).

Southeastern's attempt to create a conflict with *Vault* is based on the fact, true enough, that the Fifth Circuit attributed Section 117 rights to a party who had ostensibly licensed the subject software. However, the court was dealing with a "shrink-wrap" license[23] which the district court below had found to be unenforceable. *Vault Corp. v. Quaid Software, Ltd.*, 655 F. Supp. 750, 761-63 (E.D. La. 1987). In any event, *Vault* does not hold what Southeastern says it holds.

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[22] Southeastern argues it would "contravene[ ] precedent set by this Court" not to adopt its Section 117 interpretation, relying on *Straus v. Victor Talking Machine Co.*, 243 U.S. 490 (1917), and *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8 (1918). Pet. at 18 & n.11. Southeastern's reliance is misplaced. Both cases involved unlawful attempts by patent holders to fix the retail price of their patented inventions. Neither involved copyright law, software, or most importantly, the interpretation of a specific statute in a way that contradicts Congress' selection of statutory language. The cases are wholly inapplicable here.

[23] The term "shrink-wrap" refers to the plastic wrapping on a software package through which buyers can read the license agreement. Shrink-wrap licenses are typically used for mass-marketed consumer software. They are structured so that, by opening the plastic wrap and using the software, consumers automatically bind themselves to the terms of the license. Shrink-wrap licenses are often held to be adhesion contracts and unenforceable against consumers. *See* Michael D. Scott, *Scott on Computer Law* § 12.08[D] at 12-17 to 12-20 (2d ed. 1995). Triad's licenses involved here are not shrink-wrap licenses. SR445-51.

Vault Corporation, which made "copy protection" diskettes and software, sued Quaid, which had obtained a copy of Vault's software, copied it, and developed its own software program to defeat Vault's copy protection function. *Id.* at 256-58. Quaid argued its copying was permitted under Section 117 since its copy was "created as an essential step in the utilization" of Vault's program. Vault disagreed, arguing that Section 117 did not apply because it only permits copying of the software for its "intended purpose." *Id.* at 259-61. The court sided with Quaid, and that is the entirety of the Section 117 holding. The Fifth Circuit, in discussing Section 117, did not even raise, much less attach significance to, Vault's software's shrink-wrap license, probably because the district court below had found the license unenforceable.[24] Nor does the case hold, as Southeastern suggests, that Section 117 overrides genuine, enforceable license agreements, like Triad's.[25] Rather, *Vault* has the

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[24] The district court in *Vault* held that the Copyright Act preempted the Louisiana state law upon which the shrink-wrap license was based, and that the license was therefore an unenforceable adhesion contract. *Vault*, 655 F. Supp. at 761-63. The Fifth Circuit affirmed. *Vault*, 847 F.2d at 268-70. It is no wonder, then, that the Fifth Circuit ignored the existence of the license in discussing Section 117.

[25] No court, to Triad's knowledge, has cited *Vault* for the proposition that Section 117 applies to licensees. *See Aymes*, 47 F.3d at 26 (citing *Vault* to show that Section 117 follows CONTU's recommendations); *Allen-Myland*, 746 F. Supp. at 536 (citing *Vault* to show that Congress adopted CONTU's recommendations, with single change of "rightful possessor" to "owner"); *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009-10 (D. Kan. 1989) (citing *Vault* to show that courts rely on the CONTU report to interpret Section 117); *Sega*, 977 F.2d at 1520 n.6 (citing *Vault* for the proposition that "authorization of section 117(1) [is] not limited to use intended by [the] copyright owner"); *NLFC*, 45 F.3d at 234-35 (citing *Vault* for general copyright law and to show that "loading a program from a medium of storage into a computer's memory creates a copy of the program"); *MAI*, 991 F.2d at 519 (same); *In Re Independent Service Organizations Antitrust Litigation*, 1995 WL 769164 at *3 (D. Kan. Dec. 11, 1995) (same); *CentralPoint Software, Inc. v. Nugent*, 903 F. Supp. 1057, 1059-60 (E.D. Tex. 1995) (same); *Advanced Computer*, 845 F. Supp. at 364 n.9 (same); *Sega Enterprises Ltd. v. Accolade, Inc.*, 785 F. Supp. 1392, 1399 (N.D. Cal.) (same), *aff'd*, 977 F.2d 1510 (9th Cir. 1992); *Kepner-Tregoe, Inc. v. Leadership Software, Inc.*, 12 F.3d 527, 538 n.24 (5th Cir. 1994) (citing *Vault* for the rule that "the Copyright Act preempts all legal and equitable rights that fall within the scope of copyright law."), *cert. denied*, 115 S.Ct. 82

meaning for which Judge Smith cited it: in some circumstances, transactions labeled licenses can be sales in substance.[26] Southeastern simply failed to prove that Triad's licenses were in that category and chose not to appeal the resulting ruling.

Neither the Ninth Circuit's decision in this case nor the supposedly conflicting Fifth Circuit decision in *Vault* addresses the Section 117 "issue" cited in Southeastern's *certiorari* petition. Moreover, the District Court in this case correctly interpreted *Vault*.[27] Thus, there is perfect harmony on the Section 117 "issue," and certainly not a conflict that warrants *certiorari* review. *See Lawson v. Murrey*, 115 S.Ct. 2264, 2267 (1995) (Scalia, J., concurring) (*certiorari* denied where case presented "no clear conflict with the decisions of the other courts"); *Layne & Bowler Corp. v. Western Well Works, Inc.*, 261 U.S. 387, 393 (1923) (grant of *certiorari* requires conflict that is "real and embarrassing").

There is, however, a live controversy over whether "rightful possessors" should have Section 117 rights – in Congress, where it belongs. On January 17, 1995, H.R. 533 was introduced. It would amend Section 117 by striking the term "owner" and inserting "rightful possessor." ER586. Perhaps the proponent of the

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(1994); *Value Group, Inc. v. Mendham Lakes Estates, L.P.*, 800 F. Supp. 1228, 1233 (D.N.J. 1992) (citing *Vault* for copyright law on derivative works); *Micro Consulting, Inc. v. Zubeldia*, 813 F. Supp. 1514, 1531 (W.D. Okl. 1990) (same), *aff'd*, 959 F.2d 245 (10th Cir. 1992); *Travelers Health Network v. Orleans Parish Sch. Bd.*, 842 F. Supp. 236, 239 (E.D. La. 1994) (citing *Vault* for preliminary injunction standard); *Shell Oil Co. v. Zewe*, 805 F. Supp. 394, 396 (E.D. La. 1992) (same); *Compaq Computer Corp. v. Procom Technology, Inc.*, 1995 WL 728372 at *13 (D. Idaho Oct. 6, 1995) (citing *Vault* for general copyright law).

[26] Indeed, *Vault* is well-known for its handling of the "Shrink-wrap" license enforceability issue. *See* Page M. Kaufman, Note, *The Enforceability of State "Shrink-wrap" License Statutes In Light Of Vault Corp. v. Quaid Software, Ltd.*, 77 Cornell L. Rev. 222 (1988); Mark A. Lemley, *Intellectual Property And Shrink-wrap Licenses*, 68 S. Cal. L. Rev. 1239, 1256 (1995); Michael D. Scott, *Scott on Computer Law* § 12.08[D] at 12-22 (2d ed. 1995); Michael A. Epstein, *Modern Intellectual Property* § 10.02[A][2] at 10-87 to 10-91 (3d ed. 1995).

[27] Since *Vault* did not address the Section 117 argument in Southeastern's petition, there is likewise no conflict between *Vault* and *MAI*.

legislation will convince Congress that licensees should have the rights of owners; perhaps not. But either way, Congress, not this Court, is the proper forum for Southeastern to seek changes in a clearly worded, consistently interpreted statute. *See Harper v. Virginia Dept. of Taxation,* 113 S.Ct. 2510, 2522 (1993) (Scalia, J., concurring) (criticizing "judicial lawmaking"); *Florida v. Wells,* 495 U.S. 1, 13 (1989) (Stevens, J., concurring) (same).

III. THE FINDING THAT SOUTHEASTERN'S COMMERCIAL EXPLOITATION OF TRIAD'S SERVICE SOFTWARE IS NOT A "FAIR USE" DOES NOT CONFLICT WITH THIS COURT'S *KODAK* DECISION.

In the District Court and at the Ninth Circuit, Southeastern's flagship argument was that its copying of Triad's service software was a fair use under the Copyright Act, 17 U.S.C. § 107. Page 13, above. Specifically, Southeastern claimed fair use under a broad "promotion of competition" principle it discerned from another Ninth Circuit decision, *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992). The Ninth Circuit rejected the comparison with *Sega*, holding correctly that "*Sega* . . . was a very different case" involving independently creative reverse engineering activities "wholly unlike" Southeastern's wholesale appropriation of Triad's service software. Pet. App. 12-14.

Sega is not even cited in Southeastern's petition, an apparent recognition that this Court would not review whether the Ninth Circuit properly harmonized its own decisions. Nor does Southeastern claim there is a conflict between the Ninth Circuit's decision and any other court's. That is because there is no conflict; in fact, the only other decision on point (and it is on all fours) came to the same conclusion as the Ninth Circuit, and was cited by the Ninth Circuit. *See Advanced Computer,* 845 F. Supp at 366 (computer ISO's use of manufacturer's software to perform service was not a fair use).

Instead, Southeastern presents this Court with a new and different fair use argument: that the Ninth Circuit's decision conflicts with the Court's treatment of antitrust issues in

Eastman Kodak Co. v. Image Tech. Servs., Inc., 504 U.S. 451 (1992). That is grasping at straws. *Kodak* says nothing about copyright law, let alone about fair use. The supposed conflict with the decision below is contrived and senseless.

This Court has addressed the fair use defense several times in the past decade, most recently in *Campbell v. Acuff-Rose Music, Inc.*, 114 S. Ct. 1164, 1177 (1994) (song parody was a fair use), which both sides argued extensively to both courts below. *See also Stewart v. Abend*, 495 U.S. 207 (1990) (motion picture adaptation was not a fair use of magazine story); *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539 (1985) (publishing substantial excerpts from President Ford's memoirs was not a fair use); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (personal, non-commercial video recording of TV broadcasts – "time-shifting" – was a fair use). It is telling that Southeastern claims no conflict between these cases and the decisions below. Indeed, it cites *Campbell* only in passing[28] and does not cite *Stewart, Harper & Row,* or *Sony.* The reason is simple: *Campbell* and the other leading fair use cases establish that Southeastern's unauthorized commercial exploitation of Triad's service software is not a fair use.

Fair use is an affirmative defense to an infringement claim as to which the proponent bears the burden of proof. *Campbell*, 114 S. Ct. at 1177. The doctrine allows the limited copying of a work incidental to the creation of another, or to advance particular "public benefits," such as the development of art, science, or industry. *Id.* at 1169 (a fair use is one that "fulfill[s] copyright's very purpose, '[t]o promote the Progress of Science and useful Arts . . . ' "); *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F. 2d 303, 307 (2d Cir. 1966), *cert. denied*, 385 U.S. 1009

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[28] Despite having argued *Campbell* vigorously throughout the district court proceedings and before the Ninth Circuit, Southeastern now says that citing *Campbell* is "frivolous." Pet. at 9 n.5. Other than pointing out that *Campbell* is about a song parody, however, Southeastern never says why. Southeastern understandably dislikes *Campbell*, because it involved limited copying in the course of creating a unique work not intended to replace the original, and thus makes Southeastern's wholesale, substitutive copying look particularly bad by contrast.

(1967); *Advanced Computer*, 845 F. Supp. at 365.[29] The defense is thus designed to prevent stifling " 'the very creativity . . . [the copyright] law is designed to foster.' " *Campbell*, 114 S. Ct. at 1170 (*quoting Stewart*, 495 U.S. at 236).[30]

Section 107 of the Copyright Act contains a non-exclusive list of four factors to be considered in determining whether a particular use is a fair use:

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. Judge Smith found for Triad on all of these factors, as did the Court of Appeals. Pet. App. 15, 34-38. But under this Court's fair use decisions, there is a simpler, more direct answer to Southeastern's fair use claim.

This Court held in *Campbell* that an unauthorized copy which merely "serves as a market replacement for" a copyrighted work is not a fair use. *Campbell*, 114 S.Ct. at 1177; *see also id.* at 1181 (Kennedy, J., concurring) (what the copy "may not do is usurp demand by its substitutive effect"); *Harper & Row*, 471 U.S. at 550 ("the fair use doctrine has always precluded a use that 'supersede[s] the use of the original' ") (citation omitted). Therefore an unauthorized copy made by the copyright holder's competitor and offered as a direct economic substitute for the original work (or an authorized copy thereof) is not a fair use. *Id.; cf. Campbell*,

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[29] 17 U.S.C. § 107 lists as examples of fair uses copying in connection with "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research."

[30] Fair use has also excused some forms of personal copying, such as the "time-shifting" in *Sony*, 464 U.S. at 447-55.

114 S.Ct. at 1177-78 (a parody of a song and the original "serve different market functions"). Judge Smith followed this rule to a tee, holding there can be no fair use defense where "the infringing use usurps the market for the copyrighted work." ER86. So, pre-*Campbell*, did the court in *Advanced Computer*, 845 F. Supp at 366 (no fair use where copying of service software "clearly deprives [the copyright holder] of license fees"). No case is to the contrary. That is, no court has ever found a fair use where an entire copyrighted work was copied in a non-transformative way to commercially compete with the copyright holder. Yet that is what Southeastern does: It copies Triad's service software and uses it – without paying a cent for it or transforming it one iota – to compete directly with Triad. *See* Pet. App. 14 ("Southeastern invented nothing of its own").

Kodak had nothing to do with any of this. It is "another case that concerns the standard for summary judgment in an antitrust controversy." 504 U.S. at 454. No copyright issues were presented or discussed; hence, there is not a word in *Kodak* about fair use. It is obvious that there is not, and could not possibly be, a conflict between this case and *Kodak*.

Southeastern attempts to manufacture a conflict by juxtaposing a Ninth Circuit reference to Southeastern's "free riding" against this Court's rejection of a free-riding business justification defense in *Kodak*. There is no conflict because the Ninth Circuit was using the term in an entirely different context: Southeastern argued below that, as a matter of public policy, Triad should not be allowed to exploit its copyrights in any service-related market. Pet. App. 15. The Ninth Circuit disagreed, pointing out, first, that "Triad invented, developed, and marketed its software to enable its customers and its own technicians to service Triad computers," and second, that "Southeastern is getting a free ride when it uses that software to perform precisely the same service." *Id.* Both points are indisputably true, and lead to the court's conclusion: "Triad is entitled to licensing fees from Southeastern and other ISOs that make use of Triad's software in servicing Triad computers." *Id.*

In *Kodak*, on the other hand, the Court was addressing an antitrust issue. Defendant Eastman Kodak refused to sell replacement parts, over which it allegedly had a monopoly, to ISOs. It sought to justify its refusal on the ground that the ISOs would be free-riding on its investment in the equipment market even if they paid Kodak for the parts. The Court took this to mean that ISOs willing to make all necessary investments in the service market were being required to enter the equipment market too. The Court held that, as a defense to the ISOs' monopolization claim, "[t]his understanding of free-riding has no support in our case law." 504 U.S. at 485.

Southeastern inflates this limited ruling into a Supreme Court edict that ISOs "need not enter two markets in order to compete in one of them." Pet. at 19. But that is not what the Court held, nor is it what this case is about. All the Court held was that a potentially monopolistic refusal to deal could not be justified on the ground that ISOs should build copiers too. Paying license fees for using service tools or developing one's own is not entering an "equipment market," or any new market. Indeed, that was the Ninth Circuit's point: Southeastern is free-riding in the service market on Triad's investments *in the service market*, specifically Triad's investments in service software. There is, accordingly, no conflict between the treatment of free-riding in this case and *Kodak*.[31]

A petition for *certiorari* is not a proper vehicle for seeking legislative reform. That is really what Southeastern is asking: for the Court to use the legal doctrine of fair use as a means to establish, for unrelated, selfish reasons, an ISO

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[31] As noted earlier, this particular *Kodak* argument was not advanced by Southeastern below. On the other hand, Southeastern has previously claimed that dictum in a *Kodak* footnote, 504 U.S. 480 n.9, supports its fair use argument. It does not. Footnote 29 merely makes the unremarkable point that intellectual property rights can sometimes be abused, leading to antitrust liability. Some specific examples are then cited. This casual observation in a different context hardly means that copyright holders can't seek license fees from competitors. And the (affirmed) summary judgment for Triad on Southeastern's copyright misuse claim confirms there has been no abuse by Triad of its copyrights. Note 12, above.

exemption from the Copyright Act. The Court should not start down that dangerous path; it should instead deny the petition.

IV. EMBRACING SOUTHEASTERN'S ARGUMENTS WOULD SIGNIFICANTLY DISRUPT SOFTWARE INDUSTRY MARKETING PRACTICES.

A crucial reason to deny review is that, if the Court were to accept Southeastern's argument, its decision would have profound negative implications for the marketing of computer software in the United States. That is because, at bottom, Southeastern seeks to set aside two long-standing legal principles – that licensing a program is not the same as selling the program, and that electronic copies of a program are infringing copies – upon which there is widespread reliance. Judicially overhauling these rules in the manner Southeastern advocates would therefore have far-reaching effects.

Southeastern acknowledges that business software is almost universally licensed rather than sold outright. Pet. at 16. *See generally*, Practicing Law Institute, *Technology Licensing and Litigation* (1995); Raymond T. Nimmer, *The Law of Computer Technology: Rights, Licenses, Liabilities* (2d ed. 1992). There are many reasons for this practice, but one paramount reason is that copyright law does in fact make important distinctions between the rights of purchasers and licensees. For example, a "first sale" extinguishes the copyright holder's rights over a particular copy of a copyrighted work, whereas a license does not. 17 U.S.C. § 109(a). And, directly relevant to this case, Section 117 gives "the owner of a copy of a computer program," but not a licensee, the right to make certain types of copies that would otherwise infringe. Page 18, above. It should come as no surprise that software industry contracting practices have adapted to these copyright law principles. That is to be expected, not undercut.

Controlling "electronic copying" is also key to the integrity of the current software industry licensing structure. As explained earlier, it is in the nature of computer software that one who wishes to appropriate its economic value need not make permanent copies of the work. It is frequently sufficient

to take an existing copy resident on someone else's computer, use it for however long is required to suit the user's economic purpose, and then leave it behind. Over ten years ago, the courts cut off this method of depriving software copyright holders of their just reward. As a result, it is now clear that those who have not paid for their own rights to a copyrighted software program commit copyright infringement by using, and therefore copying, someone else's copy of it. If the Court now overturns all prior decisions and holds that electronic copying is not infringement, that would reopen the loophole and permit widespread appropriation of copyrighted works by unauthorized persons.

The Court should decline Southeastern's invitation to retrofit the software industry according to Southeastern's self-interested policy preferences. There is nothing novel or controversial about the decisions below. They apply settled law to a practice that clearly looks, smells and feels like blatant copyright infringement, and is recognized as such throughout the software industry.

CONCLUSION

For the reasons stated above, the petition for *certiorari* should be denied.

Dated: January 22, 1996

McCutchen, Doyle, Brown
& Enersen

Daniel M. Wall
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Triad Systems Corporation

COPY

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

APPELLATE JUDGES SNEED, CANBY, FERNANDEZ

JEFFREY LEDERMAN; MICHAEL J. MADISON; TRIAD SYSTEMS CORPORATION, a Delaware Corporation,	) Case Nos. 94-14818) and 95-15552) (C 92-1539 FMS)
Plaintiffs/Appellees,	) Friday, July 14, 1995
v.	) San Francisco,) California
SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba SOUTHEASTERN BROKERAGE COMPANY and dba SOUTHEASTERN SYSTEMS; GEORGE BARNES, an individual; KEVIN CLARK, an individual; and GERRY WAMBOLT, an individual,	) Courtroom 3
Defendants.	
And Related Counterclaims.	

Appeal from the United States District Court for the Northern District of California before the Honorable Fern M. Smith

Appearances continued on next page.

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Proceedings recorded by audio cassette by the Ninth Circuit; transcript produced by transcription. Copy of cassette provided by the law firm McCutchen, Doyle, Brown & Enersen. Transcript produced by federally-approved transcription service.

[p. 3] Friday, July 14, 1995 9:00 o'clock a.m.

PROCEEDINGS

MS. LEHMAN: Good morning, Your Honors. I'm Mary Lehman of Gray, Cary, Ware and Freidenrich for appellant Jeffrey Lederman and Michael J. Madison.

I'd like to reserve to do about two minutes for a rebuttal of my ten minutes. Thank you.

This appeal presents a simple and single point of law. Under the applicable Rule 11, attorneys who did not sign the offending documents cannot be sanctioned as a matter of law. It is uncontested here that the old Rule 11, the Rule 11 that preceded the 1993 amendment, is applicable.

Under the old Rule 11 the signature was the essence. The signature's the same. That's clear from the statute. That's clear from caselaw. I'm quoting Pavelic, the purpose of that Rule 11 was to bring home to the individual signer the personal nondelegable responsibility of what he was doing.

THE COURT: How did the – the District Court said that the old rule applied.

MS. LEHMAN: That's correct, your Honor.

THE COURT: And that – I mean, what happened? Where – what was the District Court's theory for

upholding the two attorneys under the old version of the rule?

MS. LEHMAN: Well, we believe it was a mistake, quite simply. It was a mistake under – the interpretation of Rule 11 [p. 4] to the extent the Court thought it was sanctioning the attorneys under Rule 11 because as – as we all can acknowledge, Rule 11 at that time didn't allow sanctions for persons who did not sign the offending document.

But I think what the District Court thought, and this is reflected in the transcript during trial, is that under a particular case, the Mercury Service case, which is a District Court case, that the Court had to sanction the attorney.

But relying on that case was a mistake for a couple of reasons.

First of all, in Mercury Service the Court imposed sanctions on – albeit, facts similar to these – The Court imposed sanction under a Rule 11 jointly with inherent sanctions. So it's not clear that the attorneys were sanctioned for a declaration under Rule 11.

But secondly, and most importantly, Mercury Service was decided before the Pavelic and Le Flor decision from the Supreme Court which said that attorneys cannot be sanctioned clearly for a document they didn't sign.

And the mercury Service Court was very clear that it sanctioned the attorneys because their typewritten names were on the top of the pleading. So it was essentially a mistake by the District Court in relying on this case.

So there – I'm sorry. Is there a question, Your Honor?

[p. 5] The only –

THE COURT: So there's nothing to it in a real argument except they – they didn't sign it and they don't get sanctioned? That's it?

MS. LEHMAN: Right. And that's clearly – have to strictly interpret Rule 11 under the rules enabling that. And it's clear under the Supreme Court authority. I mean it's a pretty simple, straightforward issue.

THE COURT: Well, you don't have to beat us over the head.

MS. LEHMAN: Is that fair? No questions?

Okay. Thank you.

THE COURT: All right. Is the plan now to respond to the sanctions, –

MS. LEHMAN: I believe so.

THE COURT: – at this point, I hope, right, because I think we should keep it separate from the rest of it.

MR. CHRISTOPHER: Yes, Your Honor. May it please the Court, my name is Robert Christopher. I'm appearing on behalf of Southeastern, the appellee, on the sanctions appeal only. And we'll be using, unless the Court deems otherwise, only five minutes of the time, perhaps even less.

THE COURT: Well, you might not need it, but –

MR. CHRISTOPEHR: That I understand, Your Honor. And I'll be listening.

[p. 6] THE COURT: It seem – it seems to be open and shut. What can you really say?

MR. CHRISTOPHER: I'm sorry. I don't know what seem – it does seem to be very open and shut to us. We – we feel very strongly that, although we disagree with the District Court's judgment not to sanction Triad as the party who was responsible for the actual declaration, we have to concede that the District Court had discretion to award sanctions against these attorneys of five hundred dollars each. The –

THE COURT: Under – under –

MR. CHRISTOPHER: The –

THE COURT: – its general discretionary authority or what? I mean Rule 11 doesn't seem to work in the form in which it was applied, does it?

MR. CHRISTOPHER: Rule 11 does work, Your Honor. And as –

THE COURT: Okay. Tell me why.

MR. CHRISTOPHER: The – the basic argument that they made is that: Oh, we didn't sign the declaration so we can't be sanctioned. That seems to be the argument, isn't it, as I understand it.

THE COURT: That's the way I understand it.

MR. CHRISTOPHER: Okay. The Mercury Service case does cover this. In that case you had the declaration of a banking officer who lacked personal knowledge. That was the evidence or [p. 7] proof of the violation. While the attorneys who in that case had their

names on the motion, or I believe in that case signed the motion, that is what provided the signing element. And, indeed, that's what we have here.

It – it only takes a moment to look at who Judge Smith decided to sanction to – to fully comprehend that she sanctioned the people who signed the motion. Of course, she didn't sign the person – sanction the person who signed the declaration, because that was a different person.

THE COURT: So it's the motion, yes.

MR. CHRISTOPHER: It was the motion, Your Honor. And I think that's really quite clear from the record, because where else did she get the names, Lederman and Madison? Where else did we get the names Lederman and Madison?

When we initially filed the motion, we didn't know who had actually sat there for hours with Mr. Mullin (phonetic), the declarant, to do this. So we – we do agree with the appellants in one respect, though, –

THE COURT: So this is the general motion for summary judgment; is that –

MR. CHRISTOPHER: This was the motion for preliminary injunction –

THE COURT: For preliminary injunction.

MR. CHRISTOPHER: – first time around, Your Honor.

THE COURT: Yeah. Okay. And the only –

[p. 8] MR. CHRISTOPHER: We do –

THE COURT: How many affidavits were filed in support of that motion or depositions or whatever?

MR. CHRISTOPHER: There was one principal declaration of this business agent of Triad that was relied on forty-nine times in the – in their motion, and there were a couple of additional declarations on minor points.

I think at that point in time there was very little discovery in the nature of deposition testimony.

THE COURT: So –

MR. CHRISTOPHER: It was essentially the entire motion.

THE COURT: Okay. But the sanction is directed at the Mullin declaration; isn't that the object of it?

MR. CHRISTOPHER: Well, it was the Mullin declaration that offended, Your Honor. But the motion that relied on that, as pointed out in the Mercury Service case, was what offended.

THE COURT: The motion that relied on it was signed by the sanctioned attorneys?

MR. CHRISTOPHER: Yes, Your Honor. And that was the basis of the sanctions award and –

THE COURT: And that's – that's how –

MR. CHRISTOPHER: – Rule 11 in the Mercury Service case.

THE COURT: – Rule 11 gets into the picture.

MR. CHRISTOPHER: Yes, it is, Your Honor.

[p. 9] THE COURT: Where does the District Judge say that?

MR. CHRISTOPHER: The District Judge does not say that, Your Honor.

THE COURT: The District Judge –

MR. CHRISTOPHER: The District Judge –

THE COURT: – only talks about the declaration, correct?

MR. CHRISTOPHER: That's right, Your Honor.

THE COURT: Apparently the sanction – going to sanction because of the declaration. Yeah. Frankly, I think –

MR. CHRISTOPHER: Because of the attorneys –

THE COURT: – frankly, I think that the losses were caused because of responding – the sanction is for the cost of response to the declaration. And that's what I'm going to sanction for, correct?

MR. CHRISTOPHER: That's what the Court said, Your Honor.

But the – where the Court got the –

THE COURT: But you're saying that really she – she really thought she was sanctioning something else, right?

MR. CHRISTOPHER: She really was –

THE COURT: Is that your point?

MR. CHRISTOPHER: She was sanctioning the parties who she thought was most responsible. I think she was wrong in that sense.

[p. 10] THE COURT: Well, she was sanctioning the party she thought was most responsible for the declaration, correct?

MR. CHRISTOPHER: Yes.

THE COURT: Okay. But you're saying: But really she was sanctioning the lawyers for signing a motion that they shouldn't have signed, –

MR. CHRISTOPHER: That's the –

THE COURT: – correct?

MR. CHRISTOPHER: Yes.

THE COURT: But she just didn't say it, because Judge Smith doesn't know how to be precise about what she's doing. She doesn't say: I'm sanctioning these lawyers because they – the should have known the declaration was bad when they signed the motion. So I'm sanctioning you for signing that motion paper. She never says that or anything like that? Now, does she?

THE COURT: No.

MR. CHRISTOPHER: There are a lot of things she doesn't say in her order, –

THE COURT: Well, –

MR. CHRISTOPHER: – that are set forth in the arguments and are part of the record which supports the result.

THE COURT: Well, lots of things can support lots of things, but the point is when she came to do the sanctioning she's sanctioning the declaration, is she not?

MR. CHRISTOPHER: She was – your Honor, I can't –

[p. 11] THE COURT: She says she's sanctioning –

MR. CHRISTOPHER: – get inside Judge Smith's head. I really can't.

THE COURT: Well, no. None of us can. So all we can do is say: Well, since we don't – we never know what human beings' intent is, let us look what they did. And what she did was sanction the declaration, correct?

MR. CHRISTOPHER: She says she sanctioned – sanctioned the declaration, but she –

THE COURT: That's what she said.

MR. CHRISTOPHER: – but she sanctioned the two attorneys who were responsible for the motion and who had signed the motion on which the declaration – which relied on the declaration. And thus it seemed to me that she had the discretion to do that.

We do agree with appellants in one respect. The ruling below exercised poor judgment. This was a case that was analogous to but far more egregious than the Mercury Service case on which we relied.

It was a case in which the plaintiff's principal witness not only swore falsely that he had personal knowledge of numerous facts but, in fact, his personal knowledge contradicted those facts.

It is a case of bad conduct. It is a case in which the plaintiff predicted in the marketplace it would litigate our [p. 12] client to death. And then they threw this everything-but-the-kitchen-sink motion at us.

So the trial court's conclusion that former counsel was exclusively to blame and the consequent failure to sanction the real culprit, Triad, at all is un – incomprehensible to me. But was it an abuse of discretion to sanction the attorneys, Lederman and Madison, five hundred dollars each? I don't believe there's a chance of that. They got off easy.

Anyone who carefully examines this record, especially Mr. Mullin's declaration and later testimony, can see that. Anyone, of course not associated with Triad or its counsel, who to this day remain in complete and unrepentant denial about conduct which was quite offensive.

THE COURT: Well, that all may well be true, but as Judge Fernandez says, we're – we're stuck.

MR. CHRISTOPHER: Then, Your Honor, let me conclude this way.

We believe that this appeal is a legal shell game. They didn't make arguments below that they could have. They were involved; they claim they weren't.

THE COURT: Well, you know, –

MR. CHRISTOPHER: It's – We believe its frivolous.

THE COURT: Public, public fighting like this isn't going to get you anywhere.

MR. CHRISTOPHER: Then let me close with this, Your [p. 13] Honor.

In the alternative, if you find that there is merit to the appeal, we would ask that the Court remand it to the District Court with instructions to do it right this time, including recognizing the seriousness of the conduct involved.

And since the rule mandates some sanctions, I believe that means that Triad should incur significant sanctions.

Thank you.

THE COURT: Did you cross-appeal?

MR. CHRISTOPHER: We did not cross-appeal, Your Honor.

THE COURT: Okay. Thank you.

MS. LEHMAN: I'll just take a minute.

There's no basis –

THE COURT: Don't – don't push too hard.

MS. LEHMAN: – for –

THE COURT: I wouldn't take more.

MS. LEHMAN: Pardon me?

THE COURT: Don't push too hard.

MS. LEHMAN: Okay. There's no basis for the argument that it was in the discretion on – of the District Court to sanction the attorneys.

The only discretion is under inherent sanctions, and the Court specifically found there's no basis. And this didn't rise to the level of requiring inherent power of sanctions.

The signature-on-the-brief argument, that they were [p. 14] really sanctioned for the brief, is irrelevant. If you follow appellee's argument that the District Judge really sanctioned for the signatures on the brief it falls apart both logically and on the record below.

The first basic thing is that only Michael Madison signed the brief, so how can you sanction what was – if that was really – it doesn't make sense to say that was really the basis for the District Court to sanction the attorney.

Then even if you look to what were the typewritten names on the brief, there were four attorneys. So why would the District Court have sanctioned just two? It doesn't hold up.

It doesn't hold up on the record as well. The order says nothing about the brief. There was nothing sanctioned about the brief, per se.

The actual order says the attorneys were sanctioned for submitting, offering the declaration. But as we just discussed, under Rule 11, that's not sufficient and it – and it can't be, according to the Supreme Court.

THE COURT: That's okay.

MS. LEHMAN: Furthermore, in –

THE COURT: I've got the order right here.

MS. LEHMAN: And all –

THE COURT: Um-hum, all right.

MS. LEHMAN: And all the evidence shows that the attorneys spent numerous hours, over a six-week period of time, [p. 15] factually investigating the basis for the declaration.

Thank you, Your Honors.

THE COURT: Well, we'll then proceed to the remainder of the appeal.

MR. KATZ: May it please the Court, good morning, Your Honors, my name is Ronald Katz.

THE COURT: Mr. Katz.

MR. KATZ: And I'm appearing for the appellate, Southeastern.

With me, aside from Mr. Christopher, are Richard Jones and Janet Arnold Hart.

THE COURT: Mr. Katz, you've been on this case quite a long time, haven't you?

MR. KATZ: I've been on the case quite a long time?

THE COURT: Yes.

MR. KATZ: It seems like forever, Your Honor.

THE COURT: It seemed to me when I was looking through it, your name is everywhere.

MR. KATZ: Last year I had the occasion to write a review of a book about the first fifty years of this

Honorable Court, called *Rugged Justice,* by David Frederick.

And I was struck by the uniquely important issues faced within our Circuit. And I think that when the second fifty years, the history of the second fifty years is written, one of those uniquely important subjects that our Circuit addresses is [p. 16] high technology.

And I believe that when that history is written, the landmark case will be Sega versus Accolade. And I believe that that case disposes of this matter in the narrow – narrowest, clearest and most important way.

The most important thing about Sega is that it looks at a new technology, software, and laws that were created before that and it recognizes, most importantly, that software is functional. I refer you to page 1524 of Sega, which reads as follows:

To the extent that there are many possible ways of accomplishing a given task or fulfilling a particular market demand, the programmer's choice of program structure and design may be highly creative and idiosyncratic. However, computer programs are, in essence, utilitarian articles, articles that accomplish tasks.

And again on page 1525 it talks about the essentially utilitarian nature of computer programs. We have to start from that.

Now if we look at the way –

THE COURT: Now I suppose maybe the key in that case could have been that the small number of bits that had to be reproduced there were the only way to get into the thing; is that –

MR. KATZ: Well, that was not the deciding factor in [p. 17] the case, Your Honor. The deciding – I mean I – I hesitate to tell Your Honor what the –

THÉ COURT: No. Well, I –

MR. KATZ: – deciding factor was because I know Your Honor was on the panel, but –

THE COURT: There may have been a lot of deciding factors in that case.

MR. KATZ: The – I'm going to get to what I think was the deciding factor in a moment, and more important, the philosophy behind that, the round pegs and square holes, if I may.

THE COURT: Okay.

MR. KATZ: Triad does not accept this. If we look at their brief and how they characterize the language that I just read, they give one sentence but not the other.

Page 25 of their brief. They give the sentence that to the extent that there are many possible ways of accomplishing a given task, the programmer's choice of program structure and design may be highly creative and idiosyncratic. And they even say: Okay, that shows it's – it's creative.

And then they don't cite the second sentence, which says that basically, inspite [sic] of that, this is still utilitarian.

I believe that that conduct is sanctionable, citing that language in such a misleading manner.

And then they go on to say in their footnote of that [p. 18] page: Well, – and refer to a question I asked some programmers there: Well, if you had been given the assignment to write this program, you'd come up with *Hamlet*, that you wouldn't have fulfilled your assignment.

And they said: Oh, that's a silly way of doing it. And – and creativity really doesn't come into it that way.

But then again if we look at Sega, Sega says there's a big difference between functional works, factual works and creative works, and says that the pre- – the protection for functional elements is very – and this is, again, on page 1524, citing Baker v. Seldon (phonetic), which is an old Supreme Court case on this matter.

The Sega ca- – case goes on to hold that even literal copying is okay in some cases. And, again, on page 1524 it says:

In some circumstances even the exact set of commands used by the programmer is deemed functional rather than creative for purposes of copyright.

When specific instructions, even though previously copyrighted, are the only and essential means of accomplishing a given task, their later use by another will not amount to infringement, because that was really the heart of the Sega case. They said we have to look at how object code is done.

And object code is such that it protects many different things. It not only protects what should be protected, which is the expression, but it also protects functional things and it [p. 19] also protects things that should not be protected.

And that's why we have to look through that and we have to come a conclusion which says that those things are simply not protected. And that's what happened in this case.

THE COURT: How do you deal with the MAI?

MR. KATZ: Well, MAI – we can live with MAI. MAI is an incomplete case because it does not do the fair-use analysis.

I have – when I was in law school my constitutional law professor Paul Froen (phonetic) said that the final courtroom review is the *Law Reviews*, and that there's a certain amount of truth to that.

I have tried to locate all the *Law Review* articles on the MAI article – on the MAI case. And they are unli- – uniformly critical. There is not a single one that supports that case. And I think it's unfairly critical, unfairly critical because the fair use issue was not before the court, and therefore the court was obligated not to decide that issue. So MAI, when that history of the next fifty years of the Circuit is written, will be a footnote because it simply was an incomplete matter.

If I may give Your Honor some cites, 44 *Duke Law Journal* 327, here's what that says about the MAI case, and I think it's typical:

The MAI System case demonstrates how a series of legal determinations, each somewhat defensible as a mechanical [p. 20] application of statutory language and caselaw precedent, can yield a result that is plainly at odds with the policies behind the statutes it seeks to apply.

The MAI Systems court erred both in holding that loading program on to RAM constitutes a copy and excluding Peak (phonetic) Computers customers from the scope of 17 USC Section 117 which stipulates that certain uses of copyrighted computer programs by the owners of copies of those programs or those authorized by such owners are deemed not to be copyright infringements.

It is the combination of these two determinations, however, that so distorts the vision not only of the Computer Software Act of 1980 but of the Copyright Act as a whole.

And then there are other citations all along the same lines –

THE COURT: Have your opponents gone as far as you are urging by saying it's okay to turn it on?

MR. KATZ: That is a sham issue, Your Honor. You – when you turn on a computer, you have to be able to run the computer. You have to be able to operate in order –

THE COURT: Well, when you turn it on some things happen that might otherwise be considered a violation of the Copyright Act if it's not turned on by a licensee, isn't it?

MR. KATZ: Well, I don't believe so. I believe that it's a fair use. I believe if we follow – the –

[p. 21] THE COURT: If – aside from fair use –

MR. KATZ: – rule of Sega is that if you're – doing intermediate copying –

THE COURT: Aside from fair – aside from a defense of fair use.

MR. KATZ: Well, right. That's what's the –

THE COURT: I mean, in other words, you –

MR. KATZ: I think actually –

(Simultaneous talking.)

MR. KATZ: – under 117 Sega helps us, too.

I think that – here's what Sega does on 117: What it does, first of all, is to set out that the CONTU (phonetic) Report is authoritative for Courts.

And then it goes on to cite the language from the CONTU Report that says that a lawfully possessor may make or authorize a copy in the use of the computer.

So I believe that that was decisive on that issue. I have to admit that MAI disagrees with that. So because MAI disagrees with that, either the Court will have to deal with MAI in some way, or just say: MAI was incomplete because it doesn't go to the fair use analysis. So I think we should win on 117, but we certainly win on 107.

THE COURT: Well, Judge Smith –

MR. KATZ: There's nothing to be ashamed of –

THE COURT: – did not – did say that she was going on [p. 22] "turning on the computer" principle.

MR. KATZ: Well, this is a way in which –

THE COURT: I mean, otherwise, she – she –

MR. KATZ: This is a way in which MAI helps us, okay.

THE COURT: Yeah.

MR. KATZ: Okay. Because you have something in the computer which is necessary to make the computer run, and that's called different things. It can be operating system. You know, it can be called operating software.

I have a blow-up here of an important exhibit, which Your Honors have, it's the other side of this so I can display.

Exhibit 380A – I'm sorry if it's too small for you to see. It's in the Excerpts of Record, Volume II, page 459.

And basically what is put in the computer, what is sold at the time that the computer is sold is what Triad itself calls operating software. And that includes the operating system and utility software associated with such hardware and provided to the customer under this agreement. That's what it takes to make the computer run.

THE COURT: Well, does that include –

MR. KATZ: And another –

THE COURT: – would that include the utility software you just referred to here?

MR. KATZ: Yes, it does. Yes, it does.

And if we look at the MAI case, –

[p. 23] THE COURT: Does the utility software do more than that?

MR. KATZ: Pardon?

THE COURT: Does the utility software do more than that?

MR. KATZ: Utility software does a variety of things, but you can't separate it out. It's like saying you can – you can drive the car, you can turn on the ignition, but you can't use the fan belt or you can't use the gas.

You have to use it all or nothing. You have to use the –

THE COURT: The reason I ask, of course, is that as the – as the issue seems to be framed in the briefs, the argument is: Well, the utility software does a lot of diagnostic things that corrects glitches and things like that are not part of the really basic operating system, and that maybe you should design your own utility system if you want to service these computers.

MR. KATZ: Well, I mean –

THE COURT: I think that's their argument.

MR. KATZ: Right. And I think that's wrong on two counts.

First of all, the rule of Sega is that if you put some things that are protectable with things that are unprotectable and then you've got this object code system and you have to print everything in order to – to do an intermediate copying, to do [p. 24] something legitimate, which is to service the computer which is certainly legitimate, then the fact that the other stuff is copied is a fair use. Okay. That's number one.

Number two, –

THE COURT: You couldn't copy – you couldn't then – you can't trigger the operating system without result – regarding utilities.

MR. KATZ: It's all – it's all together.

Number two, –

THE COURT: All right.

MR. KATZ: – this is a – an incorrect argument that they brought up at trial, and actually MAI helps us in this regard. The – if you look at – let's see if I have a copy of MAI here, . . .

If you look at MAI at footnote 3, it distinguishes between the software license and the diagnostic license. Normally diagnostics is something that's entirely separate from the operating system. But I don't think that this should be decided on a word.

And then if you look at footnote 4 of the MAI case, it talks about operating software, the same thing that it talks about here. It says: MAI also alleges that Peak runs its diagnostic software in servicing MAI computers. Since Peak's running of the operating software constitutes copyright violation, it is not necessary for us to directly reach the [p. 25] issue.

But the point is that there is a bright line here. The bright line is what does it take to run the computer. And if you copy something that's protected on there, given the nature of software as the Sega case says, that is a – and you do it for a legitimate purpose, it's just intermediate copying, there's no proliferation, there's no usurpation of market, and here there is no usurpation of market, there's no – nothing to sell, the copy disappears, then that is a fair use. Sega controls this. MAI is incomplete.

THE COURT: So if I understood what you're saying, you're saying that the operating software, the

application soft- – software, the utilities – diagnostic and the utility software, all of those are fair and they can be used by servicers without violating –

MR. KATZ: No, Your Honor. The – no, no. The – the applications are separate.

You have, on the operating software, you have the utilities and you have the operating system. Applications are something separate. You don't have to run –

THE COURT: Well, they're separate because they do the thing for which the software is designed.

MR. KATZ: Well, applications –

THE COURT: They do the – they do the accounting.

MR. KATZ: Application software are not at isn't in [p. 26] this case, Your Honor.

THE COURT: No. But it's part – it's part of the package.

MR. KATZ: No, it isn't. No, it isn't. It's not what you load into the computer to make it run. It's something separate.

Like, if you want to buy an applications program for Microsoft, for example, you want to go buy a word processing –

THE COURT: Well, in the same way it is separate just in the same way, it seems to me, utilities, diagnostic, et cetera are separate.

MR. KATZ: No. You have the operating – if we just look at this document which is a Triad document. You start out, you have the operating software.

THE COURT: Okay.

MR. KATZ: Then you have something separate called the applications software, –

THE COURT: Right.

MR. KATZ: – which they can control. They don't have to necessarily put that on. It is separate. And then you have support services.

So what we're concerned about is simply what you need to make the computer run, because it stands to reason: You cannot maintain something if – you can't take your car in to your mechanic and say: I want you to fix it, but don't turn it [p. 27] on to see if it's running.

And, indeed, this will become relevant to car, –

THE COURT: But you – you –

MR. KATZ: – sir.

THE COURT: Your people turn on the computer and you utilize the service software.

MR. KATZ: It is not service software, Your Honor. It is a utility.

THE COURT: Well, whatever word you want to – I'm – I –

MR. KATZ: Well, I'm using their words, Your Honor. We are –

THE COURT: Utility, diagnostic, utility software; is that the way you want to put it?

MR. KATZ: We are turn –

THE COURT: Utility software, you use it, right?

MR. KATZ: We use what's called the operating software, which is absolutely essential to make the computer run. You cannot make the computer run without it.

THE COURT: Well, do you – are you telling me that all you do is turn it on?

MR. KATZ: We turn it on and we operate it in order to see –

THE COURT: And what software do you use in operating it to perform your –

[p. 28] MR. KATZ: There's only one software you can use. You can only use the operating software. You'd have no choice. That's why Sega applies here. There is no choice whatsoever.

THE COURT: Well, there you – that's not the way I understand the facts, but that's the way you tell me, and I'm no computer expert.

MR. KATZ: Well, that is my understanding, anyway. Obviously your understanding of it is much more important than mine.

But that is the way – you can only –

THE COURT: Not necessarily.

MR. KATZ: – use the operating system. That is the problem with this case, because we are having a

situation – they – they put the case of we're a tax protestor.

But the fact is that no one, before MAI was decided, no one in the world, not even Triad, thought that it would be a – an infringement to turn on the machine for the purpose of maintaining it.

If you visited a colleague on the Eighth Circuit and he wanted to show you something on his computer, and you did a few keystrokes on it, you wouldn't say: Well, do I have a license to do this? You would just assume that you could do this. And that's why there has been such vilification of the MAI case. And I say unfairly because that issue was not reached.

But now the combination of these two things would be [p. 29] devastating. You would literally change the computer industry as we know it.

The – Sega goes on to analyze how the nature of software leads to a de facto monopoly over functional concepts, which defeats the purpose of the Copyright Act. And that's on page 1527 of the Sega case. And that I think – I would say that this is the deciderada (phonetic) here. That is what is the landmark aspect of this.

And it says: –

THE COURT: Let me see if I really understand your argument. Your argument is basically Sega recognizes fair use. Turning on this computer and using it for the purpose of what Southeastern wants to do, is fair use, –

MR. KATZ: Yes.

THE COURT: – period.

MR. KATZ: Period. That's right.

Just like you can go to your auto mechanic and he can turn on your car to see if it's working. This actually will become an issue with cars soon, because there's something called onboard diagnostics where you will have your car reprogrammed rather than repaired.

And you cannot – if you are a vendor, if you are a manufacturer, you cannot put a whole lot of functional stuff and unprotected stuff in with the protected stuff and say: Aha, you can't use it, if that's the only way to do what you have to do [p. 30] and it's a legitimate thing.

And I – I submit to you that if you take the Sega case, on page 1526, that was about disassembly of object code. I'm going to read you some language there. But instead of saying "disassembly of object code," I'm just going to say "loading of software into a computer," because that's what this case is about. And you'll see how that case is on all fours with this one. Okay?

Look at – this is page 1526: Loading of software into a computer necessarily entails copying. These facts dictate our analysis of the second statutory fair-use factor. If loading of software into a computer is, per se, an unfair use, the owner of the copyright gains a de facto monopoly over the functional aspects of his work, aspects that were expressly denied copyright protection by Congress.

And that's precisely what's happening in this case.

THE COURT: Well, that – that is really is a head-on argument, I admit.

MR. KATZ: The – that – the MAI case is actually helpful to us on a couple of points here. The most

important one, of course, is burden of proof: That you have to show copying beyond the scope of a license, which was never done in this case.

There has never – there has never been any proof that we did any copying. All they said was: We didn't check because [p. 31] nobody ever checked this. And if you read these *Law Review* articles, you'll see why nobody ever checked them.

In fact, let me finish giving you the cites of those law review articles, because I think that they are –

THE COURT: If these aren't cited in the briefs you should leave them with the Clerk after the argument, to cite –

THE KATZ: All right. Fine.

THE COURT: – the actual citations with copies to opposing counsel.

THE KATZ: All right. Fine. I will do that.

The –

THE COURT: We used to have a quaint custom called gum sheets.

THE KATZ: Pardon me? I'm sorry. I didn't hear you.

THE COURT: I'm saying if you're interested in history, we used to have a quaint system called gum sheets.

THE KATZ: Gum sheets. No, that's –

THE COURT: And when you added to the citations, you were supposed to stick them on a gum sheet and hand them to us.

THE KATZ: That wasn't in Mr. Frederick's book. I didn't pick that –

THE COURT: No, probably not.

THE KATZ: I didn't pick that up.

There are a couple of other – I mean very important grounds that you can reverse this. One is the nature of the [p. 32] injunction itself, which is far too broad. It is mandatory. It – it stops legal activity as well as illegal activity.

And perhaps the most important procedural ground is that the case was bifurcated over our objection, and bifurcated away our defense, copyright misuse; and our antitrust claims, which would also provide a defense to the injunction.

So the Judge said she would not enter judgment, but then she did end up entering a preliminary injunction. And I don't know how you can find a probability of success when the – when the defenses are bifurcated away.

Exacerbating that was the unprecedented notion of giving us the burden of proof. There's a little confusion on that. I think the burden of proof – there is something – there are – there are two sides to this case.

One is the distribution side of the case and one is this MAI copying side of the case.

On the distribution side of the case there is an affirmative defense called the first-sale doctrine. And the defendant does have the burden of proof on that.

But on the copying side of the case, the MAI copying side of the case, there is no such affirmative defense. And the burden is, as stated in MAI, you have to show beyond the scope of a license. It is important to say – all they said was: If you have a lot of contracts out there – which we didn't get, we asked for under Rule 1006 – and the likelihood is that they did [p. 33] this sometimes but didn't check, but they never showed a single instance of copying.

And, indeed, because we tend to deal with older machines, that we may not have infringed. But there has never been a showing that we infringed. This was strictly a statistical case of we were not given, under Rule 1006, which is mandatory, we were not given the underlying contracts so that we could evaluate that.

THE COURT: Well, let me ask you about those contracts. I understand the Regimes and that sort of thing, and –

THE KATZ: Well, you're ahead of most of the world then, Your Honor.

THE COURT: Well, I understand it in a kind of superficial way. Let's put it that way.

But under Regime I, no one has ever contested your right to use them and to –

THE KATZ: Well, I would say the injunction contests it, because the injunction would give us pause before doing anything.

THE COURT: Well, I'm going to get to this now.

You don't know what machines are covered by Regime I, I take it.

THE KATZ: We don't have a clue, Your Honor. This is the most messed-up system –

THE COURT: Does Triad know?

[p. 34] MR. KATZ: I don't know if they know or not. They say they've destroyed most of the documents.

THE COURT: They should know.

THE KATZ: There's serial numbers. They sold the machines. But they claim that they don't know and they claim –

THE COURT: Well, we'll ask them when they come. But it seems to me this would give you some slight encouragement, that –

THE KATZ: Well, the – the burden should be on us, correct.

THE COURT: They have a – they have a problem there.

THE KATZ: I think they have a major problem. It's been the problem of this whole thing.

THE COURT: It seems to me that they should demonstrate that they cannot know the machines and the reasons therefor.

THE KATZ: Well, it gets worse in the used market.

THE COURT: I don't know how you would ever find out.

THE KATZ: It gets worse in the used market. But there are serial numbers on each machine. They obviously should have the original documentation.

I probably represent more independent service organizations than anyone in the world, and no one keeps records of what's the Regime – none of the service organizations keep records of was it Regime I or Regime II or Regime III, just like your automobile mechanic doesn't keep records of what the nature [p. 35] of your contract was with General Motors.

I mean that is an absurding. Somehow that became an issue in the case, unfairly I think, and may have had on influence on – on Judge Smith, because she did some things that were highly unusual, including making a joke, the like of which I have never heard in a courtroom.

She had an expert witness up there and – who was an expert. And I was trying to show that his word wasn't the last word on things, and that the judiciary had agreed – disagreed with him on certain cases. He acknowledged that.

And she said she apologized to him on behalf of the entire judiciary, which – it's unprecedented. You've had more experience than I have, it really is unprecedented in my experience that such a remark would be made. And I – I don't think that it can help but have an effect on the jury.

So there were a number of very procedurally irregular things. I – the other side is fond of saying: Well, it

doesn't what matter what the jury did, this all comes from Judge Smith. But Judge Smith acted because of what the jury did.

And she did not have the grounds – and she – first of all, she took fair use away from the jury, again, citing Sega: Fair use is a mixed question of law and fact. She decided everything.

She just – and she made some things that are mistakes as a matter of law. She decided that it was a creative work, not [p. 36] a utilitarian work. And she cannot decide that as a matter of law in the face of Sega. She simply cannot do it.

If I may, unless there's further questions, I'd like to reserve the remaining two minutes of my time.

THE COURT: Certainly.

THE KATZ: Thank you.

THE COURT: So we'll hear from Triad.

MR. WALL: May it please the Court, my name is Daniel Wall, and I represent Triad Systems Corporation.

THE COURT: Mr. Wall.

MR. WALL: Regrettably I must begin my argument, as I tend to begin my arguments in this case, by correcting a number of very serious misstatements about the record, because it obviously matters a great deal to what you – how you evaluate this case, what you think it's about.

This is an appeal from an injunction. And because of that, the injunction defines what this case is about. It is *about no more and it is about no less* than what the injunction prohibits.

And this injunction, on its face, which of course you have, relates this case to a suite of specially-developed software tools that are used by the service technicians to maintain Triad Computer Systems.

The software is listed. If you'll on page 4 of the preliminary injunction, which is at page 474 of the record, you [p. 37] will see this page with all of these three-letter acronyms, and some others that are described with words. That is the software that is at issue in this case. It is no more and it is no less.

And it is the nature of this software that it was developed by Triad's software engineers to be service tools for the repair and maintenance of Triad computers. It was developed for Triad's own inhouse service force.

Now what has happened in this case is that Southeastern, a competitor, has chosen to use this software without limitation for its intended purposes and for the value inherent in it and for its commercial gain, so that it can gauge – engage in commercial competition with Triad.

In other words, what we are talking –

THE COURT: No. That's not a quite accurate characterization. They're not making and manufacturing computers that are competing –

MR. WALL: Competing for service.

THE COURT: – competing. The competition is, as you've just said, limited to service.

MR. WALL: Absolutely – well, actually it's not true. They – they actually make their own separate computer products. They – they have actually put software development –

THE COURT: As far as this case is concerned –

MR. WALL: Yes. This case –

THE COURT: – they're not copying your – your [p. 38] machine.

MR. WALL: They – they sell used machines, and there's some aspects of that. They also make their own software programs. Their own software programs have nothing whatsoever –

THE COURT: Well, that – that sort of identified as a used car salesman for several years –

MR WALL: It would, I think, be somewhat demeaning of them to call them a used car salesman, frankly. They – they're a company – developed add-on products. They developed their own peripherals. They developed their own software. But this case is about the use of the Triad service software.

THE COURT: Well, I understand that.

MR WALL: And that's all that we're talking about here.

But what it really is is you have two service companies, one of which has invested in the development of special software tools. The other which wants to use

those tools, could get a license for it, but won't pay for it. And they – they've decided to simply use them. And they claim that it's a fair use.

THE COURT: Would you sell them a license?

MR WALL: The testimony is clear that we would sell them a license. We – you know, I think of the – of the line from *My Fair Lady* of – of I'm waiting to sell them a license. I'm wanting to sell them the license. I'm hoping to sell them [p. 39] the license.

What they have testified is that it is against their philosophical principles to pay a competitor anything for the use of software which they say they only use to help a customer service their computer.

Of course, what they – what they use it for is to sell these insurance contracts, these service agreements, for which people pay two hundred and fifty, three hundred and fifty, four hundred and fifty dollars a month to get a suite of services. So that's what the case is about.

Now I think it is a good idea to start the analysis of this case with MAI, because that's also what MAI was about. MAI was essentially on all fours with this case, except that it goes a little bit farther than this one.

And that's been a lot of discussion in this case about MAI going all the way to the point of turning on the computer. Now, you know, if Mr. Katz, I don't understand his argument. Is it a sham, as he says, this issue of turning on the computer, or is that the essence of the case? He seems to go both ways during his argument.

We sought an injunction that expressly allowed them to turn on the computer for the very specific reason that

we did not want to continuously hear this notion about the mechanic who can't turn over the – the engine to see whether it works or not.

They can provide hardware service and they can turn on [p. 40] the computer for that –

THE COURT: That's like giving a starving man a brick, isn't it?

MR WALL: It's like giving – it's like giving a person who has three lines of business an unfettered right to two of those lines of business, even though under a decision of this Court we could have precluded them from the whole thing. I mean that's – that's a big difference here.

They, you know, they say that the restrictions are the issue. The restrictions are the things. You know, we think that what this case has to be understood as is a situation where they need something that we have and that is copyrighted.

In that world, in the situation, and in this – in this country, in the copyright system, that puts us at a very important advantageous relationship over them.

And there have been cases, the First Circuit decision in the Grumann versus Data General case and the Fourth Circuit decision in the Service and Training versus Data General case, where the courts have held that it is the lawful exercise of the copyright monopoly to deny this software completely on any terms and any conditions to the independent service organization, that that is neither copyright misuse, nor is it a violation of the antitrust laws.

We could have gone that far. We chose not to. We chose –

[p. 41] THE COURT: By that you mean you could have – you're still saying that you could have told them they can't turn it on, but that's not what you did.

MR WALL: We could have told them they couldn't turn it on and we could have told them to forget ever seeing a license from us.

THE COURT: That's hardly – to me that's just an irrelevant concession. I know where you're – where you're coming from, but it doesn't make – it doesn't get at the case.

MR WALL: Where I'm coming from, your Honor, is I think one of the great misperceptions about this case that has been – and it's been said over and over and over again – is that this is a case about a copyright holder that is trying to suppress competition. That is false. That is false.

This is about a copyright holder who wants to be paid for special service software that it developed. And, you know, this case –

THE COURT: Well, then – then I guess I don't understand about the turning on, because turning – does turning it on activate the special service software?

MR. WALL: No. And that's – that's a very important point that I think needs to be corrected, because it is, again, a complete distortion of the record.

When a Triad customer is delivered a software tape, he is given a set of tapes that have literally every software [p. 42] program that Triad makes for that computer. It has the – the operating system in what I sometimes call a sort of life support sense, the – that allows you to so-called turn on the computer.

It's got the rest of the operating system, which has some very basic sort of rudimentary diagnostics.

It has these special service utilities and that it – it has literally every applications program that Triad makes.

Now the – the logic of Mr. Katz' argument is that we could not deny people the use of any less than the whole of that because they are packaged together. But the way software licensing works in the real world and the way it works in the Triad world is that a person licenses the parts of those programs that they are – that they want that – and that they're willing to purchase.

For example, while we may have fifteen or twenty applications programs on those tapes, people tend to buy four or five, six, or license four or five, six, whatever they need.

The service software, which is – which has to be separately activated – it is utterly false for Mr. Katz to tell you that this is just something – this is like the fan belt on the car. That when you – when you turn on the computer, the fan belt must – must, of course, function. That's utterly false.

What one has to do in this – in this situation is to call up those programs through a series of routines which are essentially the work of the service technician. You see –

for [p. 43] example, one of the – the most frequently used programs is something called List Illegal Records. And it is a way of finding flaws in the record structure of the hard disk.

You have to call up the program, LIR, and then you have to perform a series of – of steps, which computer technicians are trained to perform. You have to interpret the screens that – that are brought up by that program.

And then, in a typical situation, you would activate another set of programs, which – which are more in the nature of utilities rather than diagnostics, to correct the problem, to purge the illegal record, to reset what's called the flag on it. It's a – it's a highly technical sort of work.

There is – the – the user of the computer who turns it on every day does not do these things. That's what they contract with service companies to do. That in the business of the service company, is to provide them the expert use of these particular programs.

So this is not a situation like Sega, where there was this sort of trap in the system that you – you had to – the trap in Sega, you may recall, there were a couple of them. There was the – the trademark screen that – that you could not avoid bringing up, so that the Sega trademark was – was brought up automatically, even when Accolade developed its independent game.

And there were a few lines of code, which this Court held, were – were the unprotected functional elements of that [p. 44] particular program, among many protected elements, that – that try as it might, Accolade could not

engineer around. And so it copied an infinitesimal small part of the program.

This has nothing to do with that. This is a case where they have – where we have developed these service tools, and they use them whenever they want. That's what this case is about: They use them whenever the want.

And the fundamental disagreement between the parties is that we think they should have to pay for that right and they think that it is a fair use.

Now going back to MAI. MAI enjoined this very thing. This is what a – MAI enjoined. It was a case, a – a computer manufacturer and an independent service company. The independent service company was copying – copying the operating system software and it was copying the diagnostic and utility software. And this Court enjoined that.

Now Mr. Katz says that the Court didn't consider fair use. I doubt the Court thought that the very thing which the copyright law prohibits could be a fair use.

There's a lot of ways that one can – can approach this fair use argument. You can do it like Judge Smith did it and the way that courts tend to do it, which is to march down the four statutory factors.

She did that. She found that the – that to directed verdict standards that every fact favored Triad. Every single [p. 45] fact favored Triad, which is to say that the use was purely commercial and not the least bit transformative, which is to say that the work was a creative work.

Now he says she cannot find that. That's false. This Court has recognized many times that software can have a creative expression.

Judge Canby, you so held in the Johnson Controls –

THE COURT: Um-hum.

MR WALL: – versus Phoenix Control Systems.

And his argument would suggest that software is not copyrightable because it's just functional. It just performs a function.

I'm sure that would come as a surprise to the people in Microsoft and the people at Apple and the people at software companies around the – the world who count on the copyrightability of software, that because their – their software has a use it is not copyrightable. And that's just not the law.

She also found that the – what they copied was the heart of the service programs. And she also found that it was a situation where it did usurp demand.

It was not a situation like in – in Sega where all Accolade wanted to do was develop its own creative game with – and all it wanted to do, all it had to do that caused it to decompile the code and therefore copy it, was to try to [p. 46] understand how to make it compatible. That's – that's a hundred miles away from this case.

That was a growth of creative expression. That was a better world because Accolade was able to make new, creative and independently copyrightable games by copying a fraction, a tiny, tiny fraction of the – of the – of

the code from the Sega system for the limited purpose of making the game compatible.

To equate that with a situation where you simply take the programs wholesale, use them whenever you want, is – is not tenable. That – one has nothing to do with another.

Now there is, I think, a much simpler way to deal with the fair-use issue. And that is by remembering what it is an exception to. And it is an exception to a rule of copyright infringement, the very essence of which is that you cannot take somebody's copyrighted work and commercially exploit it. And that's what this Court enjoined in MAI.

And, you know, there's an irony to this argument, because a year ago we had filed our second preliminary injunction motion. And at that time we argued very strongly to Judge Smith that it was improper for her even to consider overruling MAI by finding that the conduct which was enjoined was a fair use.

Now we lost that argument. We almost appealed from it. We – we decided to go to trial instead. But now to hear him say that – that your work on the MAI case can simply be sort of brushed aside because the very conduct is fair, it is not a fair [p. 47] use. It is not fair either in the simple, equitable sense that to the – sort of – the sense that – that when I tell my kids they have to do their homework, they say that's not fair. Nor is it fair in the – in the technical sense of the fair-use doctrine.

Now there are a couple of these other issues that – that I do want to cover because, again, I think they relate –

THE COURT: While you're on fair use, –

MR. WALL: Um-hum.

THE COURT: – would you tell me whether you can identify the contracts under the different Regimes?

MR. WALL: Yes. And let me – and let me do that in two stages. That's actually the issue I was about – about to address now.

THE COURT: Well, kind of a yes and no is – is a pretty good answer.

MR. WALL: Well, yes is the answer.

THE COURT: Okay.

MR. WALL: Well, let me make it – the answer was yes, –

THE COURT: Okay.

MR. WALL: – and let me explain why it is. It is yes. There's two reasons why it's yes.

First of all, this Regime issue is the – is, in fact, the great red herring of this case. Triad is undoubtedly [p. 48] laboring under a burden that for the first year and a half of the introduction of the Series 12 computer system, which is the only computer system that's at issue in this case, it was still following what is now an ancient and archaic industry practice of –

THE COURT: I understand that.

MR. WALL: – selling the software.

THE COURT: I understand that.

MR. WALL: Okay.

THE COURT: And I don't need it, because I've read it.

MR. WALL: But what I'm getting at is that there – there are approximately, at most, eleven percent of the Series 12 computer systems that were delivered in the period of time when Triad was selling the software.

THE COURT: That's eleven percent of the total systems out there?

MR. WALL: Eleven percent of the total number of systems that were ever delivered.

THE COURT: Yes.

MR. WALL: Now we're ten years later. Some of those systems are undoubtedly no longer in – in use. But eighty –

THE COURT: Can – can you identify what that eleven percent consists of?

MR. WALL: What we can identify – yes. Yes, we can.

First of all, we can do it in a number of ways. [p. 49] There's a whole bunch of models that one simply excludes because those models were – were introduced after the –

THE COURT: You can identify?

MR. WALL: Absolutely. And that is – I'm telling you that is one of the great red herring of this case.

THE COURT: Have – have you ever identified them in this proceeding?

MR. WALL: Absolutely. What we did is we put on a damage study. The essence of the damage study was – was the damages from – I believe there's a hundred and eleven specific systems that they were servicing.

For every single one of those systems we had our – our expert look at the documents which they had. It is another false statement that they didn't have the document –

THE COURT: Well, wait a minute. Wait a minute. You can identify them. And if the – if Southeastern came to you and said: Is the system I'm working on now a Regime I system or not, you could answer it?

MR. WALL: And, indeed, we have to, under the injunction. This is – this is a critical point about this –

THE COURT: Well, there seemed to be some dispute in the –

MR. WALL: There's no dispute –

THE COURT: – note and so on.

MR. WALL: – about what the order says. It's sort of [p. 50] like your comment earlier when you – when you –

THE COURT: Yeah.

MR. WALL: – held out the order under Rule 11. That's the great thing about writing these down, –

THE COURT: Yeah.

MR. WALL: – is that we can look at them and don't have to read minds.

The order provides that if there is any uncertainty about the – the status of one of these systems, that the customer can ask Triad to prove, essentially, with the documentation, that it is a – a licensed system.

If we don't do that, we lose the benefits of the injunction. The burden is not on them. It's on us. We lose the benefits of the injunction, if we can't prove it.

I object to that provision. I – I don't know why it is that we have to be the ones that make sure that they obey the law, but that's what the order says.

THE COURT: Well, because you've got the best access to the records. That's the reason.

MR. WALL: Well, that's – and that's clearly what Judge Smith felt, –

THE COURT: That seems –

MR. WALL: – and that's why we're under that obligation.

THE COURT: – that seems fairly straightforward to me.

[p. 51] MR. WALL: We did not cross-appeal from it. We're – we're – and, frankly, one of the reasons we didn't is because even though I don't think that that's something that, you know, maybe Dan Wall as a person thinks it should come – should be our responsibility, that it actually addresses this issue and clears it up.

So we're – we're actually better off to have this so that this – this incessant claim, which is so false, that they can't tell what these systems are, it now comes to an end.

It's our problem. We either prove it or we don't have the rights under the injunction. And – and sobeit. We'll live under those – under those rules.

Now the other thing that I want to say, though, is – is, if I may, this – this document here, which is just a – the exemplar of the – the license agreement that we use, this box here is where you list what the person is getting, the applications programs and so forth.

The – this operating system definition, which incidentally is a contract collective deposition – definition. It says that the person has licensed the operating system and utility software, and that is a defined term, as operating software under – under the contract.

That means that if the word "operating software" appears here, it's a licensed system. And that's what Judge Smith found. And that's what Judge – and that's why – and it's [p. 52] because that is so easy to do, notwithstanding what they say. You know, these computers cost fifty, sixty, seventy, sometimes a hundred thousand dollars. This agreement is like the pink slip to the car. The notion that the customers never had it or something like that is made up.

If – if they go to their customer and they say: Let me see this. I want to see if the word "operating system" appears there, it's over.

THE COURT: Isn't it going to appear in every contract?

MR. WALL: No, it will not, because if the operating –

THE COURT: Oh, because of the – you mean not the Regime I on it, yeah.

MR. WALL: The Regime I contract, the operating system will appear on a different agreement which says: System purchased, –

THE COURT: Yeah, I understand.

MR. WALL: – system purchase agreement.

THE COURT: Right. I understand.

And – and it would appear on every one of the later ones –

MR. WALL: In the –

THE COURT: – someplace.

MR. WALL: It's not repeated is the is the point there.

THE COURT: Um-hum.

MR. WALL: So if – if it is repeated, it's usually [p. 53] because the person has traded in their computer, an old computer, on a new computer. And you have the superseding contract.

These contract issues were dealt with by Judge Smith at extraordinary length, extraordinary length, over a series of – of motions. And these are the decisions that she made. And, frankly, they have not been appealed from.

All they're doing on this appeal is saying that it's too hard and, therefore, since – since the – I guess the argument is that since the – the truth is hard to find, we

should be able to live in a world contrary to the truth. I don't see any equity in that argument at all.

They are the ones who have chosen to build a business in an environment where they are dependent on this software. And until they build their own or come and get that license from us, there are going to be some problems. They're going to have to live with some things.

THE COURT: How practical is it – I suppose there's nothing in the record to answer this – to build their own and service it?

MR. WALL: Well, they say that it's not, but – but Judge Smith made a point to say that they never put any evidence in the record of that. It – it's actually not in her – in her findings, per se, but if you look at the transcript pages where she first announced her findings under fair use, she made the point that though claim has been made, it has never been [p. 54] substantiated.

And in a – and the fact of the matter is is that there other industries where independent service organizations have – have developed their own utilities. I represent a client that – that has developed its own utilities to compete – to compete for a competitor's service business. It can happen.

But if it can't, if they're – if they're not up to the task, they can get a license. They just won't do it. They will – they just will not come up to the plate on that.

I just have a couple minutes. I want to – I want to make a couple of points about this bifurcation issue.

THE COURT: Is that in the record that they can obtain a license?

MR. WALL: Yes.

THE COURT: It is?

MR. WALL: We put on trial testimony to that effect. And it's cited. We actually – there's a section of our brief –

THE COURT: It doesn't get to the issue of cost or price?

MR. WALL: Absolute – We can't negotiate with them.

THE COURT: You can't. All right.

MR. WALL: And, you know, we've actually put in evidence of what we thought we would charge. We said we would charge – we thought we would charge about seventy dollars per customer a month. They charge about two and fifty dollars for a [p. 55] – a contract per month. And the record showed they had plenty of margin if they add that extra seventy-dollar cost in there.

But, you know, they – they've got a terrific competitive advantage over us, as long as they can use our software without paying for it. It gives them a loaded cost structure. It's why those bootleg videotapes on Market Street only cost ten bucks when they cost fifty dollars at – at Blockbuster. You know, it's always cheaper to compete if you don't pay for the intellectual property rights that – that you're using.

The – the last point that I really want to make is about this issue of – of bifurcation. This issue is, for all intents and purposes, moot now.

They have said – and, Judge Sneed, I'm sure you'll remember this from the March 20 hearing. They told you that their principal defense was the misuse defense and that they didn't have a chance to – to present that defense before this injunction was issued. Well, –

THE COURT: Misuse and antitrust.

MR. WALL: Misuse and antitrust.

Well, misuse is a defense; antitrust is – as a counterclaim.

And what they said was that they never had a chance to present that. And that was a false statement that they made to you, because they moved for a preliminary injunction on their [p. 56] antitrust claims and they moved for summary judgment on the misuse defense.

And in her – in her decision back in March of 1994, Judge Smith held that they weren't going to prevail, that they were – they were not likely to prevail on the merits of the antitrust claims. And she held that their misuse argument was just deficient as a matter of law.

And the bifurcation order has to be understood in that context. She was relegating to the second phase claims which she had already determined did not have substantial merit.

And what was she – what she was concerned about and what she said during the trial, was that they were trying to use the pendency of those claims as a vehicle for putting the copyright system on trial. Because we know that the antitrust laws and the copyright laws and the intellectual property laws, generally, are somewhat at cross purposes.

One is all about promoting competition. The other creates a limited exemption from – from competition. And they wanted to be able to come in here and – and tell the jury: Don't enforce these copyrights because it would be anticompetitive.

And Judge Smith said she wasn't going to let them muddle the copyright issues by doing that. And – and the notion that that is an abuse of discretion for a – for a judge to want to prevent somebody from putting on a case against the copyright [p. 57] system, with a claim that she's already found it insubstantial, is again not tenable. But the final chapter in this occurred last month in between the time of the motions panel hearing and this hearing, when Judge Smith summarily adjudicated the – the misuse defense in our favor and against them.

So the copyright issues in this case are now fully adjudicated. And that leads to the bottom line of this whole thing, that the fundamental issue for the Court is whether it was an abuse of discretion to enjoin copyright infringement proven at trial and when the claim now – is now fully adjudicated. It – it can't possibly be so.

Most injunctions are – are based on a much more truncated record. This is based on Judge Smith's two and a half years of intensive involvement in this case. Her factual findings deserve to be respected. And her analysis of the fair use doctrine is dead on. And it could not be otherwise.

Thank you, Your Honors.

THE COURT: All right. Thank you, Mr. Wall.

Mr. Katz.

MR. KATZ: Thank you, Your Honors.

I think it's a tribute to Mr. Wall's lawyer – lawyering abilities that he can make a case that is truly absurd seem like it makes some sense. This is truly an absurd case. The idea that you would turn on a computer for the purpose of maintaining it for someone who rightfully possesses software and [p. 58] the hardware, and that would be considered to be a copyright infringement.

He says that this is like – like videotapes on Market Street. That is not what we are saying here. We're not saying that Microsoft's copyrights are invaluable. We're not saying that software should not be copyrightable.

We're saying people should not be able to come in and copy Microsoft's software and proliferate it and sell it. That's the purpose of the copyright laws. But we are saying that someone can intermediately copy something for a legitimate purpose.

And no one in the world, not even Mr. Wall, thought that that was an infringement before MAI. And MAI has been a very, very heavily criticized case, just to read from the *University of Washington Law Review, 69 Law Review* 405, the MAI Systems Court reached a flawed decision lacking any cogent rationale or supporting public policy.

The Court's cursory dismissal of Section 117's applicability based upon its interpretation of owner inappropriately restricts rights that computer users have long taken for granted and fails to consider the practical effects on the computer industry. That's round squares – round pegs into square holes. That's the problem.

THE COURT: Now as I recall, the Supreme Court didn't dismiss – didn't deny certiorari. They settled it.

[p. 59] MR. KATZ: The case was settled. The case was settled.

THE COURT: Settled, on that basis that –

MR. KATZ: The case was settled.

The – on the licensing issue, I would simply refer you to our papers, our opening brief at page 7. There is no evidence that this ever was licensed.

And as Your Honors have questioned: Why would you get a license from your competitor? One week it could be ten dollars, the next week it could be a thousand dollars. No one would ever go into that business.

The idea that we would have to create an operating system in order to be a maintenance company has been rejected by the Supreme Court in the Kodak case as matter of law, where they said that as a matter of law the purpose of the antitrust laws is such that you don't have to enter two markets in order to compete in one of them.

He – he talks about turning on utilities and – as if that was proved. Please keep in mind there is not a single instance of proof in this case that we ever turned on anything that was copyrighted. None, zero. It was all done from statistics. It was all based on these contracts that they had.

They were not given the burden of proof as they should have. They should have brought these there for their own burden of proof. Having not brought them

there for their burden of proof, they certainly should have been produced under 1006, which [p. 60] is mandatory. They were not. So we had the double whammie of having the burden of proof and not being able to get the evidence, the only evidence that would prove this. They had sold this stuff for fourteen years. Fourteen years.

THE COURT: Well, this is a preliminary injunction. Maybe when you get back you can – you can all agree on what contracts are what.

MR. KATZ: Well, I think that if Your Honors decide the fair-use question in accord with Sega, as I think you should, that we may not have to be back.

THE COURT: Well, that's very true. Of course.

MR. KATZ: And that's what I'm hoping, because when Mr. Frederick writes his next book, I hope he's writing about Sega or certainly this case – this case. The –

THE COURT: Well, I – just making an observation about this whole matter. This area is in a state of transition, I'm convinced. I don't know where it's going. I have no idea. But there are problems here. And I can see in part your side of the argument. But we're pretty well stuck with MAI. And there we are.

MR. KATZ: Well, I don't think that MAI has any higher authority –

THE COURT: Well, I know – I know you don't.

MR. KATZ: – than Sega. If I may just finish by reading what I think is the dispositive portion of Sega on page [p. 61] 1527:

> As discussed above, the fact that computer programs are distributed for public use in object code form often precludes public access to the ideas and functional concepts contained in those programs, and thus confers on the copyright owner a de facto monopoly over those ideas and functional concepts.

That result defeats the fundamental purpose of the Copyright Act, to encourage the production of original works by protecting the express developments of those works while leaving the ideas, facts and functional concepts in the public domain for others to build on.

I think that MAI should be completed. I think that this panel should complete the work that the MAI panel started. Without a fair-use analysis, the MAI decision is simply a work in progress. It must be completed and it must be completed under the philosophy and the holdings of Sega.

Thank you very much.

THE COURT: Thank you, Mr. Katz.

Thank you, counsel.

The case just argued is ordered submitted for decision –

(End of recording.)

State of California)
) SS.
County of Santa Cruz)

I, Susan Palmer, certify that the foregoing is a true and correct transcript, to the best of my ability, of the above pages, of the audio cassette copy recording provided to me by the law firm McCutchen, Doyle, Brown & Enersen, of the proceedings in the above matter.

I further certify that I am neither counsel for, related to, nor employed by any of the parties to the action in which this administrative hearing was taken, and further that I am not financially or otherwise interested in the outcome of the action.

/s/ Susan Palmer

Susan Palmer
Palmer Reporting Services

Dated December 31, 1995

State of California)
) SS.
County of Santa Cruz)

I, Steven Palmer, certify that the foregoing is a true and correct transcript, to the best of my ability, of the above pages, of the electronic sound recording provided to me by the United States District Court, Northern District of California, of the proceedings taken on the date and time previously stated in the above matter.

I further certify that I am neither counsel for, related to, nor employed by any of the parties to the action in

which this administrative hearing was taken, and further that I am not financially or otherwise interested in the outcome of the action.

/s/ Steven Palmer

Steven Palmer
Palmer Reporting Services

Dated January 1, 1996

No. 95-808

Supreme Court, U.S.
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In The

Supreme Court of the United States

October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

vs. *Petitioners,*

TRIAD SYSTEMS CORPORATION,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF *AMICUS CURIAE* of National Electronics Service Dealers Association (NESDA), National Independent Appliance Servicers (NIAS), and International Society of Certified Electronics Association (ISCET); and the Arizona State Electronics Association (ASEA), Chesapeake Electronics Association (CEA), Electronics Technicians Guild of Massachusetts (ETG-MA), Florida Electronics Service Association (FESA), Kansas Electronics Association (KEA), Missouri Electronics Services Dealers Association (MESDA), Nebraska Electronics Services Association (NESA), NESDA of New York State (NESDA-NY), NESDA of Ohio (NESDA-OH), Oregon Professional Electronics Association (OPEA), Professional Servicers Organization of California (PSOC), The Electronics Service Association of Connecticut (TELSA), Tennessee Electronics Service Dealers Association (TESDA), Texas Electronics Association (T-E-A); Virginia Professional Electronics Association (VPEA), and Wisconsin Electronics Sales/Service Association (WESA) IN SUPPORT OF PETITIONERS

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I. INTEREST OF *AMICI CURIAE*[1]

The National Electronics Service Dealers Association ("NESDA") is a trade association for the professionals in the business of servicing all types of electronic products, including consumer products, home/office copiers and business electronic devices, and medical and industrial electronic equipment. The consumer products its members service include appliances, audio systems, computers, radios, telephones, satellite receivers, televisions, and all types of video equipment. The organization from which NESDA grew was founded in 1950.

NESDA's current membership consists of owners and managers of 840 independent service businesses that subscribe to a strict code of business ethics. The members range from one-man shops to large, multi-location service centers. NESDA's purposes are to foster improved service to consumers and to improve its members' businesses through education, information-sharing and cooperation.

The International Society of Certified Electronics Technicians ("ISCET"), which was founded in 1970, is also part of NESDA. There are more than 1900 members of ISCET, which brings the combined membership of the two organizations to more than 2700.

ISCET members are employed technicians, smaller business owners or managers, and electronics instructors. They service a full spectrum of products and devices, including computers, home-entertainment units and

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[1] Counsel of record have consented to the filing of this *amicus* brief, and letters to that effect have been filed with the Clerk pursuant to Supreme Court Rule 37.

industrial, medical and military devices. ISCET members service appliances, radios, phonographs, tape recorders, compact disc players, audio high-fidelity equipment, televisions, audio-visual units, antennae, 2-way communications radios, public address and background sound systems, computers and peripheral equipment, among other electronic products. ISCET's purpose is to further professionalism in servicing and to improve the status of electronics technicians.

Another division of NESDA is the National Independent Appliance Servicers ("NIAS"). NIAS represents dealers and technicians in the appliance industry.

NESDA has individual members in virtually every state, plus other countries. It has associate organizations in sixteen states: Arizona, California, Connecticut, Florida, Kansas, Maryland, Massachusetts, Missouri, Nebraska, New York, Ohio, Oregon, Tennessee, Texas, Virginia and Wisconsin. Additionally, it has cooperative agreements with associations in Colorado, Georgia, Illinois, Iowa, Louisiana, Michigan, Minnesota, North Carolina, Rhode Island, Texas and Washington. These organizations include thousands of other state and local association members. Each local or regional associate organization works independently to serve the consumers and the members in its own area. The affiliated and cooperating organizations combine with NESDA to represent the service industry and provide member benefits on a national scale.

Several of NESDA's affiliated organizations also join in this brief *amicus curiae*:

(1) Arizona State Electronics Association (ASEA);

(2) Chesapeake Electronics Association (CEA);

(3) Electronic Technicians Guild of Massachusetts (ETG-MA);

(4) Florida Electronics Sales & Service Association (FESA);

(5) Kansas Electronics Association (KEA);

(6) Missouri Electronics Service Dealers Association (MESDA);

(7) Nebraska Electronics Service Association (NESA);

(8) NESDA of New York State (NESDA-NY);

(9) NESDA of Ohio (NESDA-OH);

(10) Oregon Professional Electronics Association (OPEA);

(11) Professional Servicers Organization of California (PSOC);

(12) The Electronics Service Association of Connecticut (TELSA-CT);

(13) Tennessee Electronics Service Dealers Association (TESDA);

(14) Texas Electronics Association (T-E-A);

(15) Virginia Professional Electronics Association (V.P.E.A.); and

(16) Wisconsin Electronic Sales/Service Association (WESA).

Becoming an independent service dealer or professional electronics technician requires a substantial investment in tools, work benches, service literature, test equipment, service aids, vehicles, insurance, licenses and other costly items. It also requires constant re-training in new management methods and the application of new technology.

NESDA, ISCET and NIAS enjoy competing as professional servicers and business entrepreneurs for the repair of consumer products. They believe in a free and open marketplace where the consumer can make an informed choice with whom to do business. Given such a choice, the consumer will usually choose the service company that offers the most competence at the best value, whether it is the least or the most expensive. But these ISOs are concerned when one company is, or a group of companies are able to dictate consumers' choices.

The members of NESDA, ISCET and NIAS, as well as all the associate organizations, would be severely impacted by the Ninth Circuit's decision in *Triad Systems Corporation v. Southeastern Express Co. et al.*, 64 F.3d 1330 (9th Cir. 1995), if it is allowed to stand. Service technicians generally must turn on high-technology equipment in order to repair it properly. If Triad is permitted to prevent ISOs from using computer software, the likelihood is very great that other manufacturers will follow suit. Access to the software that runs computers and other high-technology equipment is critical to an organization that services that equipment.

II. ARGUMENT

A. The Ninth Circuit's misinterpretation of copyright law will prevent independent service companies from competing with manufacturers.

Since many of NESDA's members are in the computer software business, the association sympathizes with any company that wishes to recoup a profit from its investment in developing those programs. The association and its members do not believe that anyone has the right to proliferate copies and distribute those copies without compensating the author. However, the Ninth Circuit's ruling in *Triad*, which adopted the holding from *MAI Systems Corporation v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994), went well beyond what copyright owners are entitled to under settled copyright law.

Both *MAI* and *Triad* held that turning on a computer constitutes making a "copy" of a computer program. This defies both logic and common sense. When an ISO goes to a customer site to repair a computer, the software on the machine must be activated just as an auto mechanic must turn on a car during the course of a repair. No lasting copies of the software are made, and the same number of copies is at the customer's site when the ISO leaves as when he arrived to fix the customer's machine. This is not extraordinarily complex; indeed it is shocking that such simple-minded arguments must be made at the level of the United States Supreme Court.

NESDA and its associated organizations believe that manufacturers and software developers are entitled to

create separate diagnostic software on disk or tape that is proprietary. However, manufacturers should not be entitled, as they are under *Triad* and *MAI*, to prevent ISOs from competing with them by bundling operating system software with utilities and other diagnostic software.

If left intact, the Ninth Circuit's rulings in *MAI* and *Triad* will create a nightmare for consumers and will seriously damage if not destroy the independent service industry as we know it. Under the Ninth Circuit's rulings, even the profession of servicing television sets, VCRs, vehicle electronics, audio components and other products will be at risk, since these contain computer chips that are activated when the machines are turned on. More and more manufacturers will be encouraged to place software in their units and provide a display that makes a "copy" whenever it is turned on. As a result, more and more consumers will find themselves captives to those manufacturers for repair and maintenance. Such actions would strip the consuming public of its present option to receive better service at a lower cost from independent servicers, an industry that has served this country well.

B. The *Triad* decision is contrary to this Court's decision in *Kodak*, and thus undermines the entire service industry.

In *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 462 n.6 (1992), this Court recognized the "magnitude of the service business." The Court stated that "the development of the entire high-technology service industry is evidence of the efficiency of a separate

market for service." *Id.* at 462. This "efficient" market that the Court recognized is in danger of extinction because of the Ninth Circuit's *Triad* and *MAI* opinions. Under those rulings, ISOs will no longer be able to turn on a customer's hardware in order to service that hardware. The result will be that manufacturers will have no competition whatsoever for service, which will drive up prices consumers pay for service.

As the Ninth Circuit interprets the law, independent servicers will not be allowed even to turn on a computer, nor will a friend of the computer owner who would like to borrow the computer. Such a situation seriously deprives the consumer of logical choices and makes them a captive of the manufacturer who wishes to gain a monopoly on the service of its products. This result will completely undermine this Court's opinion in the *Kodak* case and thus should be reviewed.

III. CONCLUSION

If this Court does not review the *Triad* decision, the tactics Triad used of bundling all software into one package will likely be implemented by many, if not all, manufacturers. This Court should reaffirm its previous decision in *Kodak* that ISOs do, indeed, serve a valuable public benefit.

Respectfully submitted,

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October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

Petitioners,

vs.

TRIAD SYSTEMS CORPORATION,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF *AMICUS CURIAE* OF INDEPENDENT SERVICE NETWORK INTERNATIONAL IN SUPPORT OF PETITIONERS

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I. INTEREST OF *AMICUS CURIAE*[1]

Independent Service Network International ("ISNI") is an organization of over 200 independent service organizations ("ISOs") that service equipment manufactured by others. The members of ISNI service high-technology equipment, ranging from computers to copiers to medical equipment. These organizations account for $1.5 billion in commerce and are located in 11 countries.

ISNI is a non-profit corporation incorporated in the District of Columbia; its purpose is to promote and maintain a closer union and more complete organization of independent service organizations. ISNI develops educational methods to increase awareness about third-party maintenance organizations and studies economic problems confronting the industry. Additionally, ISNI serves as a clearing house for information and data relating to its members' businesses, and promotes better relations among providers, distributors and manufacturers of supplies and services.

Most, if not all, ISNI members offer service for products that contain software. Generally, high-technology equipment cannot run without what is called operating system software. That software instructs the computer or other high-technology equipment how to function. In repairing high-technology equipment, it is necessary to

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[1] Counsel of record have consented to the filing of this *amicus* brief, and letters to that effect have been filed with the Clerk pursuant to Supreme Court Rule 37. Counsel of Record for Southeastern Express Company, Ronald S. Katz, is the General Counsel for Independent Service Network International.

turn a computer or other type of equipment on in order to determine that a repair has been successful.

Because of the nature of its members' businesses, ISNI is concerned about the ramifications of the Ninth Circuit's opinions in *Triad Systems Corporation v. Southeastern Express Co., et al.*, 64 F.3d 1330 (9th Cir. 1995), and *MAI Systems Corporation v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994). In *Triad*, the Ninth Circuit adopted the court's reasoning in *MAI*, which concluded that where computer operating system software is licensed to the owner of a computer system, ISOs cannot turn on the computer and temporarily load the operating system into the computer's random access memory ("RAM") without violating the Copyright Act. This effectively precludes any use or maintenance of the computer by non-licensed parties.

The Ninth Circuit also held in *Triad* that use of computer software does not constitute a fair use under Section 107 of the Copyright Act. This is a dangerous precedent for ISNI members because those members provide service on high-technology equipment; they are not in the business of manufacturing or developing software.

ISNI submits this brief as an *amicus curiae* because these holdings will have serious negative consequences for those who own, use or maintain computer systems, including ISOs. If ISOs cannot turn on a customer's computer and load its operating system into RAM, they cannot test the operation and functioning of the computer; only very limited servicing of the computer, if any, can be performed. Thus, if this decision stands, it will preclude ISOs from servicing any high-technology equipment that

has an operating system. This would result in the destruction of a large part of the independent service industry for high-technology equipment. It would also force owners and users of high-technology equipment with operating systems to use only manufacturer-provided service, even if it is more costly and less efficient. If *Triad* is allowed to stand, then it will render meaningless this Court's decision in *Eastman Kodak Co. v. Image Technical Services, et al.*, 504 U.S. 451 (1992).[2]

II. SUMMARY OF ARGUMENT

The *Southeastern* case, and the *MAI* case on which it is based, will have a broad-ranging impact on all companies that service high-technology equipment. The decision will affect not only those companies that service computers, but also companies that service any type of equipment that uses software to operate, such as medical imaging equipment, automobiles, and other high-technology equipment. The Ninth Circuit's adoption of the *MAI* decision, which held that turning on a computer's operating system constitutes a copy for purposes of the Copyright Act, will create *de facto* monopolies for manufacturers because manufacturers will be the only outside maintainers who are permitted to use the operating systems under the *Triad* and *MAI* cases. As a result, many ISNI members, which are small companies, will be driven out of business. This will result in less competition and higher prices for consumers.

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[2] ISNI also filed an *amicus* brief in the *Kodak* case.

Moreover, the Ninth Circuit's decision in *Triad* that use of computer software by a third party does not constitute a fair use under 17 U.S.C. Section 107, threatens to undermine ISNI's members. This is particularly true where, as in this case, no copies of computer programs were proliferated. This Court's intervention is needed to prevent manufacturers from driving ISOs out of business, which would result in severe harm not only to the service industry, but to any consumer who owns high-technology equipment.

III. ARGUMENT

A. If the *Triad* decision stands, consumer choice will be hindered because independent service companies will no longer be able to perform their function in this economy.

When consumers purchase high-technology equipment, they not only purchase the hardware, but also purchase the ability to maintain their equipment. The hardware would be of no use to the purchaser unless it could be maintained to run to its specifications. From a consumer's point of view, being able to access all of the material that comes with a machine when it is purchased is part of the functionality of the machine. No consumer in his right mind would purchase a machine – for example, a car – unless that consumer believed that he would be able to have the machine maintained.

The *Triad* decision destroys the consumer's expectation that his machine can be maintained because of the court's holding that turning on a computer creates a copy of a software program. This holding strains credulity

because an ISO that performs service at a customer site does not leave that customer site with any copies of computer software. When the ISO finishes performing service, the customer has exactly the same number of software programs as the customer did when the ISO entered the customer site. No copies whatsoever are proliferated. The work is simply used – just as reading a borrowed copyrighted book is a use of that book, not copying or infringement. To hold that copyright infringement occurs with mere use is unprecedented and has no foundation in copyright law.

The *Triad* court's ruling essentially permits manufacturers to copyright the functionality of a machine and thereby prevent computer owners from using anyone but the manufacturer for service. This holding will prevent ISOs from being able to do their jobs, which includes repairing a machine for a consumer who bought it and expected (and had a right to expect) that he was buying maintainability along with hardware. This result will prevent consumers from having a choice of service provider, thereby injuring the substantial service industry in the United States.

This result is in sharp contrast to a situation where a manufacturer sells or licenses a diagnostic separately from a piece of hardware. In those cases, a consumer would not have an expectation that he would be able to use that software in order to keep the machine functioning to its specifications.

The copyright laws require courts to balance the rights of a copyright holder against the rights of the

general public to access to copyrighted works. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) ("Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.") Review of the *Triad* decision is necessary so that this Court can correct the imbalance created by the Ninth Circuit.

B. An entire industry, as well as competition in many aftermarkets, will be destroyed if the *Triad* decision stands.

The service industry makes up a large part of the U.S. economy. Many participants in that industry are independent service organizations. ISOs do not manufacture the equipment they service, and ISOs do not develop operating system software. ISOs do provide competition with manufacturers for the repair of high-technology products. It is well-recognized that the presence of ISOs in the service aftermarket has provided a continually steady influence on the quality and the prices of high-technology product maintenance and repair. This has greatly benefitted the consuming public, who would otherwise have to deal with a *de facto* monopoly on the service of that brand of product by the manufacturer.

Given their position in the industry, ISOs will be at the mercy of computer manufacturers. If the panel's decision stands, ISOs will be able to service a customer's machine without violating the Copyright Act only if the ISO is licensed to load and use the computer's operating system, which in nearly all cases would be economically

prohibitive. At the best, it would give the manufacturer power – by setting the price of the software – to eliminate service competition, for which the manufacturer has no copyright, patent or any other legal monopoly.

Where a computer manufacturer develops or licenses a proprietary operating system and competes with ISOs for the business of servicing the computer, as many do, this licensing to ISOs is unlikely to occur. In effect, those computer manufacturers that have developed or licensed copyrighted operating system software will be able to foreclose others from servicing the computers. Customers will no longer be able to choose ISOs for service of those computers, and thus will have no choice but to contract with the manufacturer for service. Without the competition from ISOs, it is most likely that the costs to consumers for maintenance and repair would escalate dramatically.

This anomalous result is inconsistent with recent Supreme Court case law. In *Kodak*, the Supreme Court recognized the "magnitude of the [independent] service business." *Kodak*, 540 U.S. at 462 n.6. The Court stated that "the development of the entire high-technology service industry is evidence of the efficiency of a separate market for service." *Id.* at 462. ISOs and manufacturers of a single brand of equipment compete for the service business of that equipment. Because each manufacturer's high-technology equipment is unique, ISOs must have the special expertise required to service the machine, as well as access to parts and other tools necessary for service.

The effect of the *Triad* decision will be that manufacturers will deny ISOs access to the tools necessary to maintain high-technology equipment. This means that even if an owner of a high-technology machine wants to use an ISO for service, that owner will not be able to do so since ISOs do not by definition manufacture software and will not have access to that software from the manufacturer. This result is directly contrary to this Court's decision in *Kodak*, which held that the antitrust laws prohibit "the creation of entry barriers to potential competitors by requiring them to enter two markets simultaneously." *Kodak*, 504 U.S. at 485. In rejecting Kodak's claim that ISOs were free-riding on Kodak's investment in parts, this Court held that "[t]his understanding of free-riding has no support in our caselaw." *Id.*

The *Triad* court, by contrast, reached a different result, holding that "Triad invented, developed, and marketed its software to enable its customers and its own technicians to service Triad computers. Southeastern is getting a *free ride* when it uses that software to perform precisely the same service." *Triad*, 64 F.3d at 1337. The Ninth Circuit's opinion essentially requires all independent service companies to manufacture their own software before they can compete with manufacturers. This result is in direct conflict with this Court's *Kodak* opinion.

C. Construing the Copyright Act to confer a monopoly on copyright holders will destroy the service industry.

The *Triad* court's adoption of the *MAI* decision has the effect of conferring a copyright holder with absolute

power over a copyrighted work and the associated computer hardware. Copyright holders are afforded many protections under the Act; those protections, however, are balanced against the public's right to the free flow of information. A copyright holder's power over a product is not absolute.

The Ninth Circuit's decision effectively confers a service monopoly on Triad and other manufacturers that develop copyrighted operating systems for use in their computers. Under the Ninth Circuit's reasoning, only the computer owner/licensee, a limited number of its employees and Triad may load the operating system into the computer's RAM. This means that the manufacturer controls not only the operating system, but also the use of that operating system in conjunction with the computer and, thus, the computer itself. This anomalous result is contrary to the public policy underlying the Copyright Act, namely the free flow of information.

D. The Ninth Circuit's decision that use of computer software by an independent service company does not constitute a fair use will have a severe impact on the service industry and on consumers.

One of the more significant limitations on a copyright holder's exclusive rights is the doctrine of fair use. 17 U.S.C. §107.[3] This flexible doctrine permits courts to

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[3] Courts consider four factors in determining whether use of a copyrighted product constitutes fair use:

(1) the purpose and character of the use, including

avoid rigid application of the Copyright Act and to balance the equities where strict application of the Act would have unintended consequences. It allows a court to apply an "equitable rule of reason" analysis to particular claims of infringement. *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 448 (1984).

The Ninth Circuit's *Triad* decision rejects fair use out of hand as a defense to the use of a copyrighted computer program by an ISO. In so holding, the court found that "Southeastern is simply commandeering its customers' software and using it for the very purpose for which, and in precisely the manner in which, it was designed to be used. As a result, the copies made by Southeastern while servicing Triad equipment have undoubtedly diminished the value of Triad's copyright." *Triad*, 64 F.3d at 1336.

This curious reasoning flies in the face of a basic fact: the customer licenses this software. A customer would obviously not pay an additional license fee for an ISO to use the software to maintain the equipment when the customer had already paid a license fee to the manufacturer. Moreover, there is no reason for an ISO to pay the manufacturer a second license fee just so the customer can maintain his or her machine when the customer

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whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. §107.

should have the right to do so by paying only one license fee.

The Ninth Circuit's faulty reasoning applies not only to the facts of the *Triad* case, but also could apply to all ISOs. The Ninth Circuit's holding eviscerates both an ISO's ability to service high-technology equipment and a customer's right to choose the company that services his equipment. Contrary to the Ninth Circuit's statement, ISOs do not "commandeer" software for their own purposes. High-technology equipment owners hire ISOs to service their equipment because they can get the same quality service at lower prices. Those equipment owners have almost universally already licensed the software at issue from the manufacturer. The result of the *Triad* decision is that owners of high-technology equipment will continue to pay license fees, but will have no choice of service provider.

Moreover, the Ninth Circuit's holding concerning the diminution of the value of Triad's copyright is erroneous. The temporary loading of a copy of an operating system program into RAM clearly does not affect the potential market for that work. No permanent copies are made for sale, transfer or other redistribution. An ISO's use of computer software does not affect a computer manufacturer's ability or right to sell other computers that contain the operating system software, or to license additional copies of the operating system. Indeed, the presence of ISOs in the marketplace may enhance a manufacturer's sales of computers that contain operating systems, as customers have more choices of service providers if ISOs continue servicing the equipment.

Finally, the Ninth Circuit's holding that Southeastern offers "no appreciable public benefit" could be applied to all ISOs, and is thus a dangerous precedent. The public benefit that ISOs bring to the computer service business is readily apparent; ISOs offer customers a choice of service provider, and generally offer customers lower prices for maintenance, thereby enhancing competition. *See Kodak*, 504 U.S. at 462.

IV. CONCLUSION

If the Ninth Circuit's decision on fair use is not reviewed, ISOs will no longer be able to continue servicing high-technology equipment, virtually all of which is run in some manner by software. An entire industry, not merely the parties' interest in this case, is at stake. This Court's review is necessary to protect the high-technology service industry in this country from Ninth Circuit decisions that are wrong as a matter of law, fact and policy. More important, this Court must protect the public's right to access to copyrighted works and the ability to choose a service provider.

Respectfully submitted,

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No. 95-808

In The

Supreme Court of the United States

October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

Petitioners,

vs.

TRIAD SYSTEMS CORPORATION,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF *AMICUS CURIAE* OF BUSINESS TECHNOLOGY ASSOCIATION IN SUPPORT OF PETITIONERS

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I. INTEREST OF *AMICUS CURIAE*[1]

The Business Technology Association ("BTA") is a national and international organization representing approximately 6,500 independent business equipment systems dealerships. BTA's membership contains both independent service organizations ("ISOs") and dealers authorized by a manufacturer to market and service highly technical products to end-users. BTA is recognized as the major spokesperson for the industry. Premised upon BTA's commitment to service and integrity, one of BTA's principal organizational goals is to assist its members in providing the highest level of pre-sale, point-of-sale, and post-sale support to end-users of sophisticated office products. BTA achieves these goals through education and guidance offered to its members over the past sixty-six years.

As a non-profit organization representing business equipment and systems dealers as well as manufacturers, BTA has a substantial interest in this litigation because the products and systems that BTA's members sell, support and service are for the most part software-dependent. The Ninth Circuit's decision in *Triad Systems Corporation v. Southeastern Express Co. et al.*, 64 F.3d 1330 (9th Cir. 1995), that ISOs are violating the copyright laws merely by servicing a customer's equipment will have a grave and substantial impact on BTA's members and their customers. The Ninth Circuit's decision forecloses BTA members from offering service to their customers because

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[1] Counsel of record have consented to the filing of this *amicus* brief, and letters to that effect have been filed with the Clerk pursuant to Supreme Court Rule 37.

no BTA member will be able to service equipment without turning it on. This manifestly inhibits competition because no company other than the software developer or an authorized dealer will be able to access software in order to maintain equipment.

The effect of the *Triad* decision is that manufacturers will be able to prevent end-users of office automation products from contracting with anyone other than the manufacturer for service. The Ninth Circuit prevents a customer from using anyone but the manufacturer for service even though that customer has rightfully paid a license fee for use of software. Inhibiting a customer's use of hardware is the end result.

This result is contrary to the copyright laws as well as to our system of competition. Under the copyright laws, the copyright holder's rights must be balanced against the rights of the public to have access to the copyrighted work. The *Triad* court shifts that balance markedly in favor of copyright holders, and does so at the expense of end-users, who under the *Triad* decision will not be able to get competitive pricing because they will not be able to contract with the technician of their choice.

In simplest terms, the owner of equipment, rather than the manufacturer, should decide who shall service the product. In an already fragile service economy, the *Triad* decision deals what may be a fatal blow to companies that are members of BTA. If those member organizations cannot maintain a customer's office technology product, manufacturers will have a lock on the service industry and end-users will pay higher prices because

they will have no choice but to contract with the manufacturer for maintenance. Accordingly, BTA has a strong interest in the disposition of this case.

II. ARGUMENT

A. This Court should grant *certiorari* in order to clarify the application of the copyright laws to the use but not proliferation of computer programs.

The use of software in office automation products has become standard within the last few years. Maintenance and repairs of such systems cannot be accomplished without accessing the software that is sold or licensed with those machines. For years, BTA members serviced their customers' equipment by using the software that came with the equipment their customers purchased.

Prior to the Ninth Circuit's decision in *MAI Systems Corporation v. Peak Computer*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994), no ISO would have believed that it was committing copyright infringement by turning on a customer's computer, at the customer's request, in order to service it. In reaffirming the *MAI* decision, and taking it one step farther by holding that such a use does not constitute a fair use under 17 U.S.C. Section 107, the *Triad* court essentially foreclosed any ability that an independent service company has to service office technology products.

The *Triad* and *MAI* decisions do not take into account today's environment of pervasive software programs, and fail to consider the differences between traditionally

copyrighted works, such as books and music, and software. When someone reads a book or listens to music, in other words when someone uses the book or record, no infringement occurs. If someone were to make physical copies of a book or record and sell those copies, an infringement would clearly have occurred.

The same logic applies to computer programs. Mere use of a program is not an infringement, whereas proliferation of copies for sale would clearly be an infringement. In servicing a customer's equipment, BTA members do not proliferate copies of computer programs. BTA members are merely performing a service the customer contracted with those members to perform using software for which the customers have paid a valid license fee. This Court's review is critical in order to correct the Ninth Circuit's misapplication of copyright law to computer programs.

B. This Court should grant *certiorari* in order to review the important question of whether the copyright laws are violated when a computer is turned on by an independent service organization.

In reaching its conclusions, the *Triad* court relied on the unprecedented *MAI* decision, which held that loading a computer program into a computer's Random Access Memory ("RAM") constituted a copy for purposes of the copyright laws. The result of this decision is that any ISO performing service on office technology products, virtually all of which use software to operate, is violating the copyright laws. Taking this illogical holding to its

logical conclusion, ISOs such as BTA member organizations will essentially be prevented from servicing high-technology products that use software to function.

Not only is the Ninth Circuit's decision illogical, it is also contrary to the purpose of the copyright laws, which is to balance the rights of copyright holders against the rights of the public to have access to information. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). End-users who purchase office technology products have an expectation that they may use whatever comes with the machine in order to keep that machine running to its specifications. This includes hiring an ISO such as a member of BTA to maintain that machine. Under the Ninth Circuit's ruling, however, end-users' rights will be severely hindered because they will not be able to contract with anyone other than the manufacturer for service.

C. This Court's review is necessary to clarify whether end-users of office technology products should be considered "owners of a copy" under 17 U.S.C. § 117.

Under 17 U.S.C. Section 117, the "owner of a copy of a computer program may make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an *essential step in the utilization of the computer program*, or (2) that such new copy or adaptation is for *archival purposes only* and that all archival copies are destroyed *in the event that continued possession of the computer program should cease to be rightful . . .* " (emphasis

added). If read logically, this statute gives end-users of office technology products the right to authorize a service organization to use the computer program that comes with the system in order to maintain that system.

The Ninth Circuit's reading of this statute, however, reaches the opposite result. According to the *Triad* court, the phrase "owner of a copy" means either the copyright holder or a person who purchased a copy of the program outright. *Triad*, 64 F.3d at 1333; *see also MAI*, 991 F.2d at 518 n.5. The copyright holder clearly has the right to make copies of his own program, and thus does not need the protections under 117. Because almost all end-users of office technology products license the software that comes with their machines rather than purchase it, the Ninth Circuit's reading of Section 117 renders that statute meaningless.

The only logical reading of the statute is that licensees of computer programs constitute "owners of a copy" and thus may authorize a third party to use the computer program as long as no copies are proliferated. This is the only reading consistent with subsection (2) of Section 117, which uses the concept of rightful possession, not ownership.

ISOs do not proliferate copies: after servicing a customer's piece of equipment, the ISO leaves the customer's site and makes no addition to the number of copies of the computer program that originally existed at the customer site.

III. CONCLUSION

The *Triad* decision is harmful not only to BTA members, but also to end-users because it severely limits an end-user's choice of service provider by curtailing that customer's right to access to a computer program for which the customer has paid a license. This result is contrary to the copyright laws, and should be reviewed in order to prevent what is certain to be permanent damage to this country's service industry.

Respectfully submitted,

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Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

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2 Melville B. Nimmer, *Nimmer on Copyright* (1995) 1

I. INTRODUCTION

Contrary to Triad's inappropriate, *ad hominem* assertions, this case does not concern "larceny" or whether Southeastern "stole" Triad's software. This case concerns a customer's right to use software *it has already licensed from Triad*. As Southeastern's petition for *certiorari* and the three *amicus curiae* briefs in support of Southeastern demonstrate, the Ninth Circuit's decision in this case will cripple the service economy in this country, and, as a result, will prevent a computer owner's right to use software for which that customer has paid a valid license fee. This result is directly contrary to the copyright laws, which favor public access to copyrighted works.

This Court should grant *certiorari* in order to address issues vital to our economy that were both raised before the Ninth Circuit and passed on by that Court. The need for a decision by this Court on the applicability of copyright laws to software is even greater now than when the petition in this case was filed because of the 4-4 decision in *Lotus Development Corporation v. Borland International, Inc.*, 49 F.3d 807 (1st Cir. 1995), *aff'd*, 64 U.S.L.W. 4059 (Jan. 16, 1996).

Despite Triad's attempt to trivialize the issue, the stakes in this case are huge, as is demonstrated by the three *amicus curiae* briefs filed in support of Southeastern's petition. At issue is whether a copyright holder may prevent a computer owner who has rightfully paid a license fee from contracting with anyone but the manufacturer for service. This requires an analysis of the fundamental distinction between control over expression and promotion of use under the copyright laws. *See Baker v. Selden*, 101 U.S. (11 Otto) 99, 103-105 (1978); 2 Melville B. Nimmer, *Nimmer on Copyright*, §8.1[A] at 8-13 (Rel. 36-12/94). The issue is not whether software developers should be expected simply to give away their programs, but whether once having sold or licensed those programs, the copyright laws entitle the copyright holder to dictate who shall run those programs on the lawful possessor's behalf.[1]

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[1] Triad's obliteration of the well-recognized distinction in copyright law between use and copying is demonstrated by the odd locution it uses in various parts of its brief: "[i]t is undisputed that Southeastern also uses, and in doing so

II. FACTS

A. Triad misrepresents the facts in the case in an attempt to obscure the real issues involved in this appeal.

The legal findings adopted by the lower courts in this case to date have far-reaching implications for computer users, competition and the proper role of copyright. To obscure these implications, Triad resorts to mischaracterization of both the record and what this case is about. Disingenuously, Triad depicts Southeastern as a competitor willfully purloining copies of proprietary software developed for the use of Triad field service employees. Moreover, Triad claims that the "thief" tricked the courts below into believing the case was about something else, Triad's operating software, which Triad claims plays no role in this suit. None of the above is correct.

1. Triad misrepresents the nature of the software at issue.

Triad mischaracterizes the software at issue as "service software" developed by Triad for use solely by Triad personnel. In fact, Triad sued Southeastern for the alleged infringement of both its operating system software and utilities software. The Ninth Circuit expressly acknowledged this (*See* Petition Appendix at 4) and the injunction prohibits "copying" of each.[2] The operating system and utilities programs are collectively known and licensed to customers as "operating software." *See* E.R. at 459-60 [Trial

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copies, Triad's operating system software. . . . " Triad Opp. at 3 n.2; *see id.* at 1, 5.

[2] There is one limited exception. The injunction does not prohibit Southeastern from turning on a client's computer, which would cause certain portions of the operating system to load automatically into the computer's RAM. But the injunction forbids any subsequent use of the computer that would cause any other software to move into RAM. As one member of the Ninth Circuit panel noted, allowing Southeastern to turn on the computer was like "throwing a brick to a starving man." Triad Opposition Appendix at 39. Like a car mechanic, a computer repair person must be able to do more than merely turn on the ignition in order to make repairs.

Exh. 380].[3] Utilities and operating system software are bundled and delivered together with the computer hardware when licensed or sold to the customer because they are essential to routine use of nearly any computer. E.R. 123.2-123.8, E.R.S. at 552. For example, MS-DOS, Microsoft's popular operating system, comes with many utilities like those subject to the injunction in this case, including a file-management utility, a data compression utility, and a backup and restore utility.

Triad's claim that the utilities programs, while licensed to the customer, are for use chiefly by Triad technicians is false. Triad's own Field Service Coordinator testified at trial that the utilities were "mainly for use by the customer" in order to perform the necessary utility/maintenance functions. C.R. 393, E.R. 333-34; C.R. 47, E.R. 1, 3-5. This is software that the customer has acquired for a reason – it is part and parcel of the operational computer the customer purchased from Triad. The customer, then, should be the one to decide who will use those licensed programs to repair the customer's computer.

2. Whether or not Southeastern obtains a license from Triad is irrelevant to the issue of fair use.

Triad mischaracterizes Southeastern's objection to paying Triad an additional license fee on top of that already paid by the customer in an attempt to obscure the real issues in this case. Triad Opposition at 7-8. Throughout the trial, Southeastern made it very clear that it believed the specific use made by Southeastern of its customers' licensed software was a fair use, and on that basis alone objected to the payment of a license fee to Triad for such use. C.R. 389, S.R. 229, C.R. 390, S.R. 260-62. The quote Triad gives from Southeastern's president illustrates that very point. Mr. Barnes testified that he couldn't imagine paying a fee for "helping a customer fix his computer with software that he rightfully has."

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[3] Citations are to the Excerpts of Record Southeastern filed in the Ninth Circuit (E.R.); the Supplemental Excerpts of Record Southeastern filed in the Ninth Circuit (E.R.S.), and the clerk's record (C.R.).

S.R. 260-62. That is not an unreasonable point of view, as the district court observed, C.R. 396, E.R. 409, and as the law reviews unanimously agree.

Triad's claim that it is willing to license the software to Southeastern, even if true, is irrelevant. The issue in the case is solely whether a manufacturer who has licensed software to a customer may prevent that customer from using that software freely.[4]

III. ARGUMENT

A. The *MAI* and Section 117 issues were both raised below and passed on by the Ninth Circuit; thus, they are ripe for review.

Triad's contention that the petition for *certiorari* must be denied because the issue emanating from *MAI Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed,* 114 S. Ct. 671 (1994), was not raised below has no merit. This Court has traditionally precluded a grant of *certiorari* "only when the question presented was not pressed or passed upon below." *United States v. Williams*, 504 U.S. 36, 41 (1992); *see also Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1098, n.8 (1991). This rule operates in the disjunctive, "permitting review of

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[4] In its factual recitation, Triad inappropriately accuses Southeastern's counsel of tricking the district court into conducting an unnecessary trial. The evidence refutes this allegation.

Triad claims that Southeastern deceived the court below into believing that Southeastern did not use utilities software in its customers' possession, and that this case was really only about operating software that includes neither utilities nor diagnostics. Triad Opp. at 8-9. Supposedly, based on that contention, the district court denied Triad's motion for summary judgment and allowed trial to proceed on the narrow issue of whether the use of the "operating system" alone could constitute a fair use. *Id.*

To the contrary, as part of its own motion for summary judgment on fair use, Southeastern acknowledged using its customers' utilities software. C.R. 129, E.R.S. 535-37. Triad's story requires one to believe that Judge Smith failed even to read the papers submitted by Southeastern. Moreover, Judge Smith herself acknowledged in a March 18, 1994, order, well before the trial, that Southeastern used service utilities and other "non-operating system" software. C.R. 252, E.R. 84.

an issue not pressed as long as it has been passed upon. . . ." *Williams*, 504 U.S. at 41. This is particularly true where the issue is "in a state of evolving definition and uncertainty, and one of importance to the administration of federal law." *Virginia Bankshares*, 501 U.S. at 1098 n.8 (internal quotations and citations omitted).[5]

As Southeastern demonstrated in its petition, the *MAI* and Section 117 issues were raised below, and were ruled on by the Ninth Circuit. The appeals court recognized that Triad's whole case was based on *MAI*, and reached its decision using *MAI*: "Triad, to show that Southeastern made copies of its protected works, relies on the MAI decision. It is clear that Southeastern's activities are 'copying' for purposes of the Copyright Act. MAI, 991 F.2d at 519." Southeastern Pet. App. at 10-11. The Court also ruled on the Section 117 issue. The Ninth Circuit held that "owners" of Triad software could use the software the way they wished, but did not give the same rights to licensees of Triad software. *Id.* at 4-5.

Even assuming the *MAI* and Section 117 issues were not raised in the briefs, as Triad claims, both issues clearly were raised during oral argument, in some instances by the Ninth Circuit panel itself.[6] This is clearly sufficient for this Court to reach the issues. In *Cohen v. Cowles Media Co.*, 501 U.S. 664, 666-67 (1991), the issue before the Court on *certiorari* was never tried, briefed or argued by the parties below. Instead, the issue was first raised by one of the justices during oral argument before the Minnesota Supreme Court.

In this case, the Ninth Circuit panel raised the *MAI* issue, specifically asking "How do you deal with MAI?" Triad Opposition to Petition Appendix ("Triad Opp. App.") at 19. Counsel for

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[5] Triad attempts to undercut the citation to *Virginia Bankshares* by claiming that the issues raised in this appeal are "routine." One need look no farther than the numerous law review articles Southeastern cited in its petition criticizing the *MAI* line of cases to see that the issues involved in this appeal are novel and important. Southeastern Petition for *Certiorari* at 5-6 n.2.

[6] Triad levels another *ad hominem* attack at Southeastern's counsel for misrepresenting the record at the Ninth Circuit hearing. A review of the transcript Triad filed along with its brief reveals that every quote Southeastern cited was correct and in context.

Southeastern responded that "we can live with MAI [because it] is an incomplete case because it does not do the fair use analysis." *Id.* In other words, if a computer program loaded into RAM is considered a copy under *MAI*, then as long as such a copy is considered a fair use, independent service organizations can live with the decision.[7] Triad significantly leaves out the remaining quote from its brief, Triad Opp. at 13. Triad omits the fact that counsel for Southeastern goes on to list the Law Review articles that uniformly criticize *MAI*.

The Ninth Circuit panel also inquired as to the status of *MAI*, stating that "as I recall, the Supreme Court didn't dismiss – didn't deny certiorari. They settled it." Triad Opp. App. at 57. At the end of the hearing, the panel stated that it was "pretty well stuck with MAI." *Id.* at 58.[8]

The Section 117 issue was also dealt with at the Ninth Circuit hearing. Counsel for Southeastern argued that a previous Ninth Circuit panel had ruled that Section 117 should be interpreted to apply to rightful possessors. "I have to admit that MAI disagrees with that. So because MAI disagrees with that, either the Court will have to deal with MAI in some way, or just say MAI was incomplete because it doesn't go to the fair use analysis. So I think we should win on 117, but we certainly win on 107." Triad App. Opp. at 21.

Triad goes through a tortured explanation of why there is no split in the circuits regarding the Section 117 issue. Despite Triad's meandering explanation, the fact remains that *MAI* ruled that Section 117 does not apply to *licensed* software and the court in *Vault Corporation v. Quaid Software, Ltd.*, 847 F.2d 255, 257 n.2 (5th Cir. 1988), ruled that Section 117 did apply to the facts in that case, which concerned *licensed* software.

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[7] This is in accord with the position of CONTU. *See* below at pp. 7-8.

[8] Counsel for Triad also raised the *MAI* issue, arguing that "*MAI* enjoined this very thing." Triad Opp. App. at 43. Indeed, counsel for Triad admonished the Ninth Circuit that it could not "brush aside" *MAI*, as counsel for Southeastern argued, but urged that the panel was bound by what was done in *MAI*. *See* Triad Opp. App. at 45.

B. Whether loading software into RAM constitutes a "copy" under the Copyright Act is a novel, important question on which the lower courts and litigants need this Court's guidance.

Triad's argument that the *MAI* case is merely routine and certainly not novel is truly remarkable in the face of observations by both the district court and the Ninth Circuit regarding *MAI*. The district court stated that "MAI has caused a lot of furor. It's a new concept. It's a far-reaching concept. And I think it will take a couple of years for the law to shake out and see where it stands and what defenses are available to it." RT at 2608. The Ninth Circuit, moreover, stated that "This area is in a state of transition, I'm convinced. I don't know where it's going. I have no idea. But there are problems here. And I can see in part your [Southeastern's] side of the argument. But we're pretty well stuck with MAI. And there we are." Triad Opp. App. at 58.[9]

In support of its disingenuous position that *MAI* is not a new concept, Triad points to the CONTU Report. Triad Opp. at 15. Triad's citation to CONTU is entirely inapposite, which is revealed by a review of the language Triad cites in its opposition brief. The Commission stated as follows:

> Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons be able to use them freely without fear of exposure to copyright liability. . . . It is easy to imagine, however, a situation in which the copyright owner might desire, for good reason or none at all, to force a lawful owner or possessor of a copy to stop using a particular program. One who rightfully possesses a copy of a program, therefore, should be provided with a legal right

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[9] Triad's citation to *Apple Computer, Inc. v. Formula International*, 562 F. Supp. 775 (C.D.Cal. 1983), and *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Cir. 1988) is inapposite. *Apple* did not hold that copying from a diskette into a computer's Random Access Memory was a copy. *Apple* dealt with Read Only Memory and diskettes, which are permanent forms of memory storage in contrast to RAM, which is temporary. Triad also misconstrues *Vault*, which held only that loading a program from outside a computer into the computer's memory (i.e. ROM) creates a copy of the program. *Vault*, 847 F.2d at 260. *Vault* did not deal with the issue in this case, which is loading of a program from ROM into RAM.

> to copy it to the extent which will permit its use by that possessor.

Final Report of National Commission on New Technological Uses of Copyrighted Works ("CONTU"), H.R. Rep No. 12207, 96th Cong., 2d Sess. pt.1. at 22. The CONTU Commission also noted the distinction between use of a computer program and proliferation of that program: "Thus, one could not, for example, make archival copies of a program and later sell some while retaining some for use." *Id.* It is clear from this context that CONTU intended licensees to be permitted to use computer programs, but not to proliferate copies of those programs for sale.

C. The *Triad* decision conflicts with *Kodak*

In yet another attempt to obscure the issues, Triad argues that *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992), is an antitrust case (and only a summary judgment case) whereas *Triad* is a copyright infringement case.[10] Therefore, Triad claims, the two cannot by definition conflict. Triad Opp. at 24-25. This argument does not withstand scrutiny. As the three *amicus* briefs filed with this Court in support of Southeastern's position demonstrate, the Ninth Circuit's opinion does in fact conflict with *Kodak*, and will undermine the entire service industry in this country if allowed to stand.

Triad also mischaracterizes this Court's rulings in *Kodak*. Triad claims that "[a]ll this Court held was that a potentially monopolistic refusal to deal could not be justified on the ground that ISOs should build copiers too." Triad Opp. at 28. To the contrary, this Court's holding in *Kodak* applied not merely to the facts of that case, but to all cases. Indeed, this Court recognized that requiring a competitor to enter two markets in order to

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[10] As the dissent noted in *Kodak*, "[t]his is not, as the Court describes it, just 'another case that concerns the standard for summary judgment in an antitrust controversy.' . . . Rather, the case presents a very narrow – but extremely important – question of substantive antitrust law. . . . " *Kodak*, 504 U.S. at 486 (Scalia, J., dissenting).

compete in one was one of the "evils" proscribed by the antitrust laws. *Kodak*, 504 U.S. at 484.[11]

The Ninth Circuit's decision in *Triad* requires ISOs to develop their own software, and thus explicitly requires those ISOs to enter two markets (the software market and the maintenance market) in order to compete for service business. This is precisely what *Kodak* prohibited. Triad's claim that software is an investment in the service market borders on the absurd. Triad developed the software at issue in order to run the Triad hardware. Moreover, the fact that software is used to perform service does not mean that it is included in the "service market." In the *Kodak*, case, this Court recognized that an ISO need not enter either the equipment market *or the parts market* in order to compete with Kodak. *Kodak*, 504 U.S. at 405. Thus, this Court acknowledged that parts, although used in repairing computers, are in a different market from service itself. The same is true of software in this case.

Equally absurd is Triad's claim, and the Ninth Circuit's holding, that Southeastern's use of rightfully-licensed software somehow diminishes the market for Triad's software. To the contrary, *the software has already been licensed by the customer*, thus Triad has already obtained its revenue for the use of that software. If Southeastern proliferated copies of Triad software and sold them to customers, then Triad's market would be diminished. However, given that Southeastern only uses software that has already been licensed, Southeastern clearly has not supplanted demand for Triad's software.

The Supreme Court rejected a similar argument advanced by Kodak (which not coincidentally was represented by Triad's counsel). This Court stated that if Kodak's argument were correct, then one would expect that ISOs would, in fact, *enhance* sales of

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[11] Triad's argument that Southeastern presented no evidence that it was incapable of developing software for use with Triad systems is both false and irrelevant. Southeastern's president testified at trial that Southeastern had neither the size nor resources to do so and explained why one could not simply create alternative utilities without also creating alternative operating system and applications software. E.R. 356-58, 359.1. Moreover, whether Southeastern could develop the software is not the issue. This Court has explicitly held that a company need not enter two markets in order to compete in one market.

copiers, not hinder them.[12] The same is true in this case. If Triad computer purchasers knew that there were more companies out there like Southeastern to service their equipment, Triad might sell more computers, and thus increase software license revenues.

CONCLUSION

The high-technology world awaits this Court's first pronouncement on how the copyright law impacts on software. The Ninth Circuit, which has jurisdiction over the center of that world, has created bad law and bad policy out of whole cloth. Supreme Court action is appropriate and necessary.

Respectfully Submitted,

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[12] The Supreme Court stated as follows: "According to the theory, one would have expected Kodak to take advantage of lower-priced ISO service as an opportunity to expand equipment sales. Instead, Kodak adopted a restricted sales policy consciously designed to eliminate the lower-priced ISO service, an act that would be expected to devastate either Kodak's equipment sales or Kodak's faith in its theory." *Kodak*, 504 U.S. at 472.